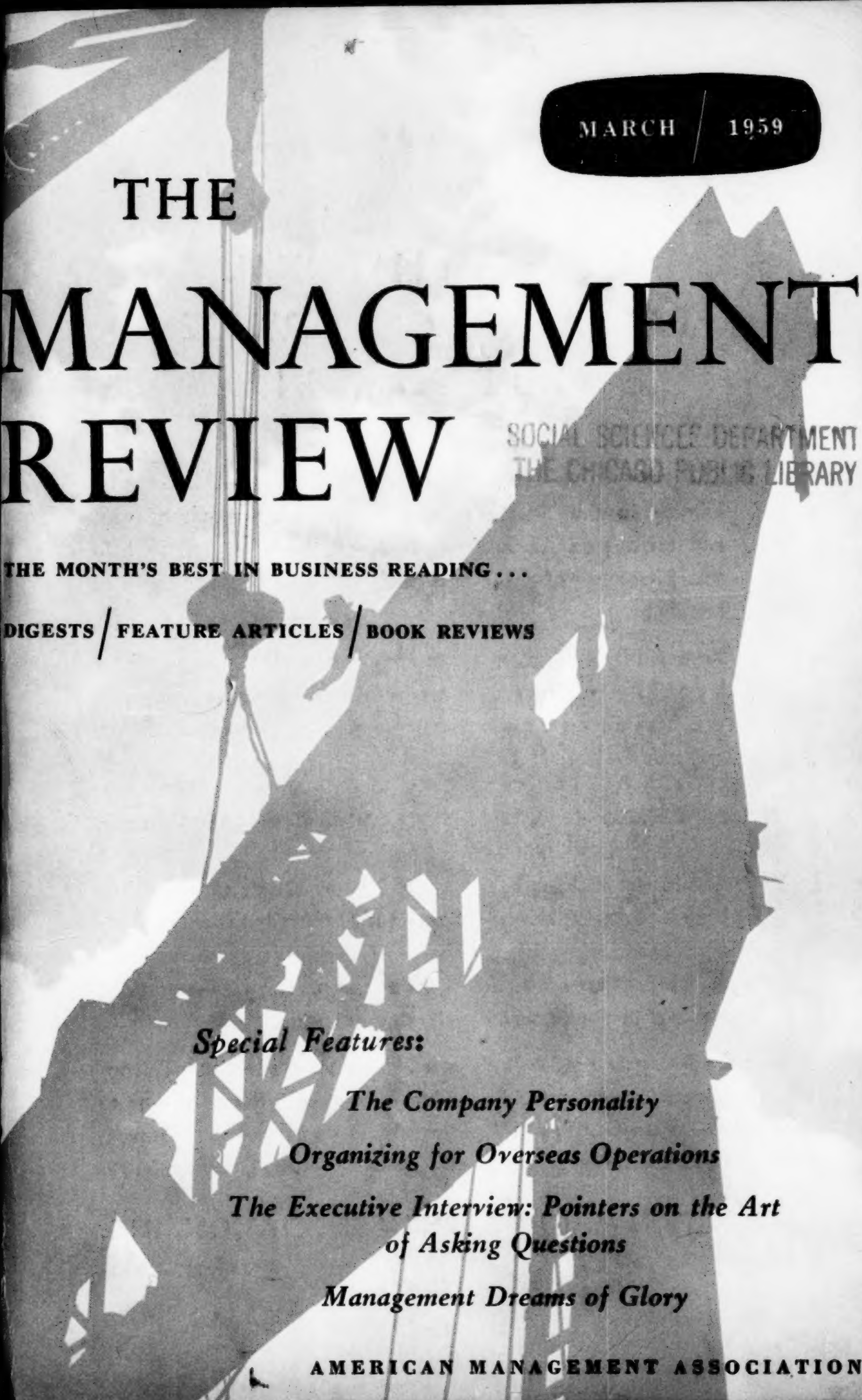

MARCH / 1959

THE MANAGEMENT REVIEW

THE MONTH'S BEST IN BUSINESS READING . . .

DIGESTS / FEATURE ARTICLES / BOOK REVIEWS

Special Features:

The Company Personality

Organizing for Overseas Operations

The Executive Interview: Pointers on the Art of Asking Questions

Management Dreams of Glory

AMERICAN MANAGEMENT ASSOCIATION

in this issue . . .

• **The Corporate Personality.** Companies change. Not long ago, for example, the local bank was an impeccable symbol of propriety—solid, aloof, possibly a little bit drafty. Now, however, it has adopted a snug Colonial decor, offers drive-in conveniences, and gives away pots and pans to new depositors. In short, its personality has changed.

Though it is sometimes harder to "type" and often slower to change, every organization develops a distinctive personality that is molded by its history and traditions, its competitive situation, and, perhaps most important, by the impact dominant individuals have had upon it. This month's opening article explores the company personality—what it is, how it affects day-to-day decisions—and how to live with it or, if necessary, change it.

• **Operating Overseas.** The basic principles of organization work just as well abroad as they do at home, declares F. D. Crowther of General Electric, but the problems to which they must be applied do differ markedly, both in nature and degree. His article (page 9) describes the special organizational problems that arise in overseas operations—and some of the tested principles to which management can look confidently for the answers.

• **On Being Communicated To.** With all the emphasis on communications, executives are aware, as perhaps never before, of the importance of expressing themselves effectively—of communicating *to.* But equally valuable is the skill it sometimes takes to get other people to do the talking—particularly in a formal interview situation where specific information is being sought. For some guides, see *The Executive Interview: Pointers on the Art of Asking Questions* (page 18).

• **Management Dreams of Glory.** On the premise that there's a touch of Walter Mitty in everybody, and managers are no exception, this month's cartoon feature (page 14) explores The Executive Daydream.

—The Editors

MARCH 1959
Volume XLVIII, No. 3

THE MANAGEMENT REVIEW

FEATURES

BUSINESS DIGESTS OF THE MONTH

Trends and perspectives

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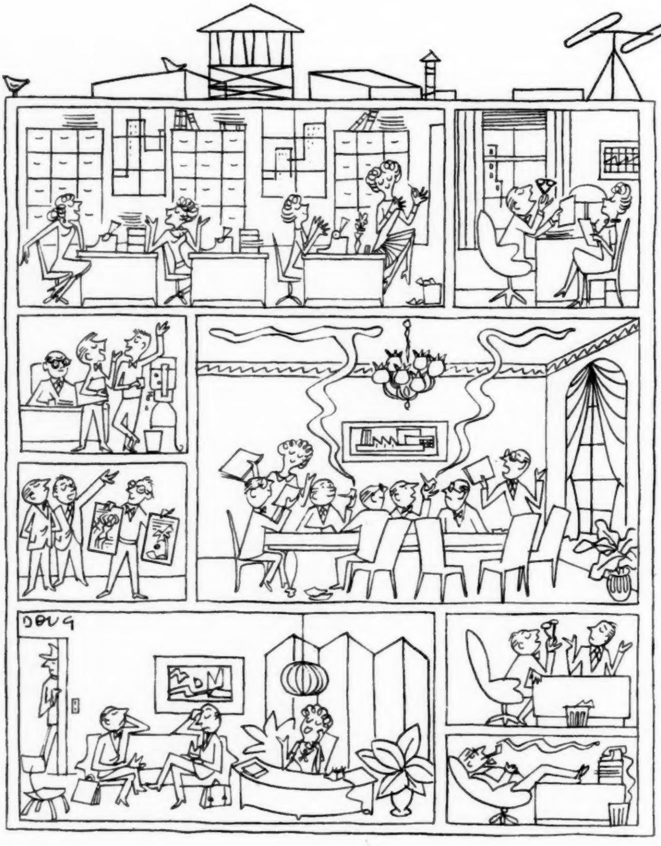

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• What it is
• How it got that way
• What to do about it

■ ***Saul W. Gellerman***
Director of Psychological Services
The Personnel Laboratory, Inc.

COMPANIES, like fingerprints, snowflakes, and people, are always unique. Every company, however large or small, inevitably develops a distinct "personality" or working atmosphere of its own. The company adopts certain attitudes that make it a congenial setting for some men to work in and an uncongenial place for others. It seeks certain goals that make it receptive to some kinds of policy decisions and unable to follow through with others. It adheres to certain traditional strategies or systems and does not feel attracted to others.

The "personality" of a company is basically an expression of the collective dispositions of its key men toward its key problems. The analogy with the individual personality holds on several points:

- Each company personality is unique. Despite some obvious similarities, each company has a different working atmosphere from any other.
- There is a strong emotional element to any company personality. It tends to reflect hopes, attitudes, and biases of management at least to as great an extent as it reflects management's knowledge and reasoning power.

- It is rare for executives of a firm to have much awareness of their company's personality as such. Insight—that is, a realistic self-appraisal—is nearly as difficult to attain about one's company as about one's self.

Even though its existence is seldom recognized, the company personality has an important bearing on the company's fate—perhaps more important *because* its influence is so rarely recognized. In large measure, this personality consists of a body of traditions and assumptions about the nature of the business that are rarely questioned—and rarely even put into words. It therefore tends to contain the company's blind spots as well as its unsuspected assets. Like an individual without insight, a company whose personality is left unexamined will be likely to keep acting out the same predetermined role, unable to react flexibly to changing conditions.

Even when executives recognize the company's tastes and preferences for what they are, without having to pretend that they are necessarily logical or realistic, it is hard to get a really thorough understanding of the company personality without making a deliberate study of it. When this is done, three factors usually emerge as the main shaping forces of the company personality: the company's economic position, its history, and the temperaments of its "pacesetters" or dominant members.

ECONOMIC FACTORS

Economic factors are the most obvious of the influences that mold the company personality. One might even assume, at first glance, that the tactics worked out by a company to give it a competitive advantage would spread throughout the company's operations and become habitual, thereby setting the tone for future operations. But the truth is not quite so simple. People of differing temperaments can work out vastly different—and equally successful—tactics to meet the same economic conditions.

For example, consider two banks of approximately equal size in the same city. One chooses to expand its working funds by aggressively seeking a greater share of the area's depositors. It builds drive-in branches, promotes a save-by-mail program, and stresses a public image of helpfulness and convenience to the small depositor. The other bank mechanizes its accounting procedures, deliberately

preserves the traditional conservative decor of its downtown branches, and promotes its trust and estate planning services. Each grows—attracting, of course, a different segment of the population—and each is convinced that its own method of expansion is the "right way."

Both ways are "right," of course—right for the taste, temperament, and tolerance for risks of their managements. The effectiveness of a company personality must be measured against the capacities of the people who comprise the company, as well as against its economic potentialities.

HISTORICAL FACTORS

Particularly among firms that have been established for years, or those that have been under continuous management by one relatively small group, traditions tend to take on the power of authority. "We've always done it that way" becomes a sufficient reason for continuing to do it that way. In recent years, however, the company that has held steadfastly to the habits that originally got it off the ground has been the exception, rather than the rule. More and more companies have been calling for infusions of new blood and new ideas to meet the challenge of a dynamically expanding economy.

But whether the new blood energizes the old company or merely puts it at cross-purposes with itself depends, once again, on the people involved. For example, one family-owned company that made patent medicines decided to expand by calling in a new management team. In short order, the new men negotiated the company's first large-scale long-term loan, acquired an ethical drug firm as a subsidiary, started building a research staff, and launched an aggressive sales and advertising campaign. Although the company prospered, the owners grew disenchanted with the new president and his team, largely because his flamboyant, extravagant mannerisms seemed to suggest a lack of sound judgment. Gradually, despite the company's continued success, they became convinced that they were courting disaster with such a man in office, and asked for his resignation.

Another firm, which had been established for years in the agricultural chemical field, also decided to call in a new managerial group. A similar expansion and diversification took place, but in

this case the major stockholders developed such strong faith in the new president, who was also an energetic, dramatic sort of person, that they gave him a progressively freer hand to remake the company as he saw fit.

The difference between the two company's stories, of course, is one of compatibility: characteristics that the chemical firm's owners admired in their president were intolerable to the owners of the drug firm.

DOMINANT INDIVIDUALS

Of the three factors that shape the company personality, the influence of dominant individuals is clearly the most crucial. The human factor far outweighs economic and historical forces—even when there is not a company patriarch who stamps his own personality so firmly on the company's that his ideas endure even after he is gone.

The towering, half-legendary "old man" whose will keeps a firm grip on a company for years is not as common, actually, as the unsung, behind-the-scenes planners who contribute almost unknowingly to their company's personality. The company absorbs their traits because they help it to survive and because they give its members a sense of belonging, which in turn promotes loyalty, cooperation, and high morale. Even where there is a single dominating figure, his influence will tend to be softened and diluted by the loyal but less dynamic men who serve as his lieutenants. The company personality, like an individual one, is a living compromise between stronger and weaker drives, between ambitions and necessity.

Viewed in one light, the influence of the dominant individuals in the company might be considered the only important determinant of the company's personality. As we have seen, economic and historical factors have a bearing, but only as they are perceived by the dominant men in the organization. The same historical or economic background can produce, and has produced, companies with widely differing personalities, depending on how the key men in each company react to the challenges and opportunities that present themselves.

There are a number of methods that can help to define a com-

(Continued on page 69)

ORGANIZING FOR OVERSEAS OPERATIONS

■ *F. D. Crowther*
Consultant—Organization Practices
General Electric Company

ORGANIZATION IS DYNAMIC. A business enterprise is a part of its environment, and organization is the structure of people, positions, and facilities that enables the company to operate effectively in the environment in which it finds itself.

Any discussion of a specific case of organization will usually, at some point, bring out a familiar comment: "Well, this business—or this situation—is *different.*" When the mystery and remoteness of far-away places is added, you can almost guarantee that it will be "different."

There are, however, basic principles involved, and if we can understand them, we can apply them to new situations and to situations that differ from any example we might examine. The best way to approach an understanding of organization for overseas operations, therefore, is to start with the fundamental principles on which it must be based.

PRINCIPLES OF ORGANIZATION

The same organizing principles that apply in domestic operations also apply in international operations. It may not be possible to make radical changes in international operations as quickly as can be done in a domestic organization, but this does not change the

principles that apply. Most of the so-called differences are not differences in principle, but only in degree.

Sound organization planning for overseas operations must be based on a fundamental belief in the dignity of man as an individual; a belief that individuals *will* assume and accept responsibility, when given an opportunity; a belief that many individual decisions at points of action—and where the knowledge and competence are normally available—are, in the aggregate, better than decisions being concentrated in one or a few higher but remote positions.

There are few, if any, established overseas organizations in which the same work couldn't be done with fewer positions through the application of sound organizing principles. Of course, setting out with the idea of reducing the number of positions is not a good approach to organization planning, but it does pay off in profit. A better approach is to make sure that organization planning follows closely adequate business planning that is designed to reach objectives efficiently and on time.

DETERMINING THE OBJECTIVES

The most important (and frequently overlooked) starting point in organizing is determining the objective or purpose of the enterprise—and, within the enterprise, of the organization component being considered. An organization cannot be all things to all people. Business enterprises usually grow through obtaining expedient solutions to problems of the moment, but they can be made to grow more effectively when planned and directed toward predetermined objectives.

Each enterprise has some distinctive characteristic, resource, or skill in which it excels. The potential of its contribution, the scope of its work, and the underlying purpose of the enterprise are frequently determined by such distinctive characteristics.

This determination of purpose of a business enterprise is an executive decision. It can take one of many forms, frequently with little rationale other than the personal view of the top executive who has a flair for long-range planning and for envisaging the future and who has the responsibility for such a decision. To mention just a few examples of alternative purposes: Is the enterprise to be primarily domestic, exporting only when there is surplus

capacity? Or is it to be a domestic manufacturing enterprise that exports to serve an area market (such as, for example, South America) or the world market? Or is the enterprise to be an international one, manufacturing anywhere in the world that will provide the optimum contribution, and exporting and importing freely around the world in order to balance its contributions to the owners, the customers, the employees, the suppliers, and the public? Or is the enterprise to capitalize on unique knowledge and skill through licensing or providing technical aid to others?

Most companies operating in foreign markets will inevitably be drawn to the more fundamental questions of why United States corporations should be operating overseas in the first place. What can we contribute to these other countries? Why should they want us there? Should we be concerned with attempting to raise their standards of living, either for moral or ethical reasons or for our own, and their, long-term economic interest? Are we interested in spreading our belief in freedom and democracy?

It is possible to visualize many modifications of purpose, each giving rise to an organization structure different from that designed to serve another basic purpose. Without a well-defined purpose, therefore, there is no basis for a stable organization structure with clearly defined objectives for its parts. So the starting point must be an evaluation of available resources and market opportunities to determine the purpose and objectives of the enterprise.

Let us assume that we have answered these questions: we have concluded that we should operate internationally, and we have established a clearly defined purpose. Now we must determine how to organize an international operation.

ORGANIZING FOR OVERSEAS OPERATIONS

Structural organization charts merely show reporting relationships and do not clarify responsibilities. They can, therefore, be quite misleading unless the responsibilities are clearly separated in organizing.

A Separate International Division

Suppose we have a diversified manufacturing and distributing enterprise making tires, toothpaste, and tranquilizers in three de-

centralized divisions. We could establish an international division responsible for all operations outside the United States, which might well include export as well as overseas manufacture.

There are many areas of possible conflict and voids in responsibility in this setup. The domestic divisions, not being responsible for market participation overseas, can insist that the product they make for domestic consumption is good for any other country, so it is up to the international division to sell it. They can take the position that they must get their full domestic price for the product or it will pull down their over-all performance record.

The international division, on the other hand, can claim that the product is too high in price, or that the quality is too high for the need in their market or to be competitive with European or Asian manufacturers. Within the international division itself, there can be conflict between those responsible for export sales and those responsible for overseas manufacture, who often sell their products in the same market.

If products are also manufactured overseas, who should be responsible for setting quality standards? Is this a corporate asset that should be protected? Can an overseas operation export to other countries and thus compete with domestic export? If so, what is to prevent them from exporting to the United States, thus competing with the domestic division?

Responsibility for such decisions as these must be placed in the organization structure so the results of the work of each organization component in accomplishing its objectives can be identified and measured. Whenever you find morale problems, you usually find faulty organization structuring and overlapping or unclear lines of responsibility. Such situations, of course, also add to cost.

To have clear lines of responsibility, the organization must be structured so that the objectives of the work of each component can be clearly stated and are different from those of every other organization component. Such separations at any one level in the organization structure can be by either product, geography, or function, but to have clear lines of responsibility, there should not be a combination of two or more of these factors at one level.

In making this kind of analysis, the key factor is the location of responsibility for *determining the objectives* of the work, not neces-

sarily for the actual performance of the work. It is possible, for example, for someone to have the complete responsibility for a piece of work and buy it all on the outside.

The International Division as a Service

To organize our hypothetical tire, toothpaste, and tranquilizer company in a somewhat different manner, the product divisions could have responsibility for developing not only the domestic market, but the world market. They should then be measured, however, on how well they develop the world market, and not just use this as windfall volume to help fill the plant.

If they are given such a responsibility, the product divisions might decide that they could do a more effective and efficient job in the overseas market by buying distribution—either from outside the company or from an internal international division. For the product division to be measured in this situation, they must have the freedom of choice to buy the service or to do the work themselves. Whatever decision they make, they are measured on how well they participate in the total available market. The international division, in this case, is selling a service; it must be competitive to survive.

The International Division as a Pool

Another approach to organizing this hypothetical company is for the three product divisions to get together and decide that a more effective and efficient job can be done in the overseas market, where specialized knowledge and high-level competence is needed, if the three of them set up a pooled organization component known as the international division. The three would then outline the specific objectives they expect the pool to accomplish for them and place a value that they will pay on this work. This arrangement differs from the first example in that the three product divisions can still determine the objectives they wish accomplished, but they now have a responsibility to each other and to the pool organization component. They have committed an investment, and the justification was the economies and greater effectiveness resulting from combining

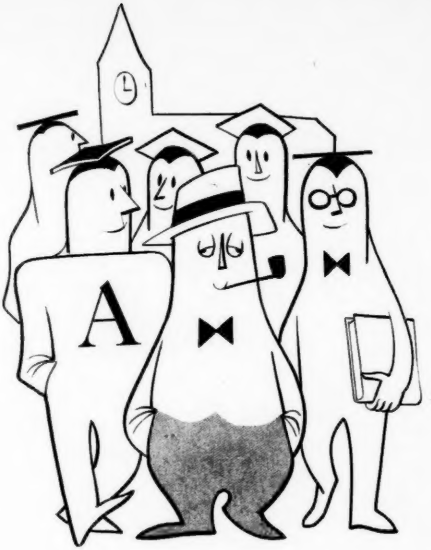
(Continued on page 77)

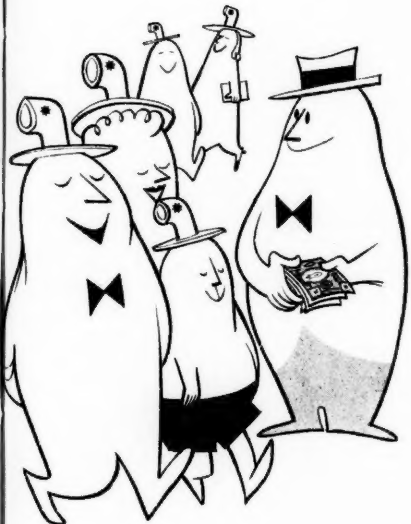
Management DREAMS OF GLORY

Drew Pearson picks up your press release on management development.

A few words from you reverse the union's decision to strike.

You recruit the cream of the state's universities.





A product manufactured from your scrap becomes a national fad.

Your courage and foresight enable your new product to corner a growing market.

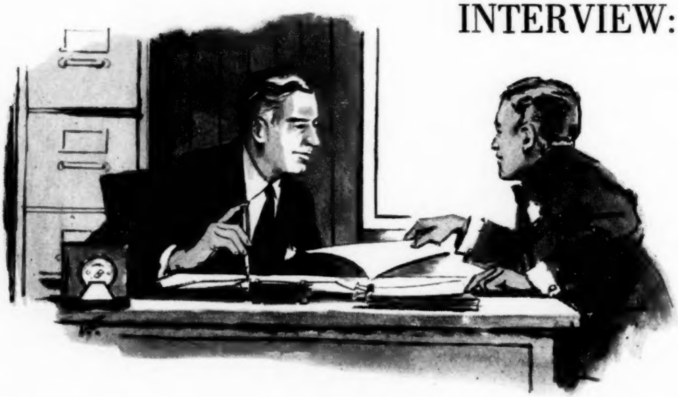
You are able to perform a service for a close relative of the boss.

A prominent national figure endorses your company's product.

Washington finally realizes that you are indispensable to the defense effort.

The Internal Revenue Service allows a deduction you were advised was debatable. ♦

THE EXECUTIVE INTERVIEW:



Pointers on the Art of Asking Questions

■ ***Ruth Burger***
Editor, Development Division
Research Institute of America

FEW EXECUTIVES regard themselves as professional interviewers—nor are they expected to be. And yet a study of successful managers reveals that they spend more than half of their working time talking to people—in training, discussing work assignments, handling complaints, evaluating performance, talking with job applicants. Thus interviewing is a key part of the executive job, and most managers will admit that they could do a more professional job of it—particularly when it comes to one of the least understood skills of communication: the art of asking questions.

Take the employment interview, for example. Here, clearly, is an interview situation where specific information is being sought, and at various points the interviewer has to ask for it. To some execu-

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This article is based on a chapter from the forthcoming book by Ruth Burger and Benjamin Balinsky entitled *The Executive Interview,* to be published by Harper & Brothers in April.

tives, this means that the interview is essentially a process of direct interrogation—getting the other person off guard and firing question after question at him, courtroom-style. The interviewer may not feel as aggressive as he sounds, but the results, in any case, are almost certain to be disappointing.

At the other extreme, you'll find executives who firmly believe that they can learn more about a man by talking casually, rather than by planning an interview to cover specific questions. If an applicant for a high-level management position were to turn the conversation to a discussion of golf, for example, such an executive might encourage him to express himself at length on the subject and let the conversation follow its own natural bent for the better part of the interview. He may honestly think he is gaining insights into the man's personality—making observations that will prove relevant later when he sorts them all out. But at the end he may have little more than a rather haphazard collection of facts about the man's interests and hobbies, and an impression of his social poise—in a given situation.

The ideal to be sought lies somewhere between these extremes. A good interview must accomplish its basic purpose—the elicitation of information. But in order to do this, it must also establish and maintain rapport and mutual respect between the participants.

KEEPING CONTROL

Many otherwise forceful executives are for some reason fearful of losing control in the interview situation, and this overconcern about controlling the interview situation sometimes results in the extremes described above. But the most effective type of control is accomplished by giving conscious attention to the objectives of the interview, not by recourse to either extreme.

Conscious control over the direction that an interview will take requires skill at asking the right kind of questions in the right way. The experienced interviewer learns to use questions as a subtle method of:

- Guiding the direction of the interview.
- Encouraging participation.
- Uncovering the information he needs in order to reach his decision.

- Opening areas for discussion that will help the person better understand himself.
- Establishing the kind of atmosphere in which cooperation is most easily accomplished.

The ideal interview should seem like an unstructured conversation, but this does not mean that it should in fact be permitted to follow its own path.

GENERAL VS. SPECIFIC

A good basic rule for any type of interview is to start with questions that are general and work up to the more specific. For example, in interviewing a job applicant, you would logically start from the more general discussion of his background, experience, etc., and guide the discussion logically to the more specific questions of job skills. Professional interviewers accustomed to collecting data in public opinion surveys have found that they meet less resistance to more personal questions if they start from the usual questions relating to background, occupation, and so forth.

Thus the advantage of starting in the more general area of questioning is that you avoid the resistance that is so easily stirred up by probing too directly into personal or emotional areas. What may seem like a threatening question, if it is thrown at the interviewee point-blank, becomes acceptable if you have built up to it in the logical course of conversation.

Executives who pride themselves on their "directness" must be careful of this pitfall. Hearing of a feud between two employees, one's tendency might be to get to the bottom of the thing by calling each party in and demanding an explanation. But faced with such a direct challenge, almost anyone would assume that he was being accused of starting all the trouble. It would be far better to start the conversation along more general lines and give your subordinate a chance to tell you about the friction. Given what he considered a fair hearing, he would certainly be more receptive to your suggestions for resolving the differences.

Less obvious is the threatening effect of a question that is asked out of context as far as the subordinate is concerned. For example, a personnel manager in a textile plant was considering upgrading a supervisor into a highly responsible position. However, he was not

yet certain in his own mind whether this man had the ability to carry the additional responsibility. During a discussion of production schedules, he suddenly and irrelevantly asked, "By the way, Fred, how long have you been with us?" To Fred, this seemed like a criticism of the way he had been handling production. He read the question as implying, "You've been with us long enough to know better."

TRANSITIONS

In his book, *The Psychiatric Interview,* Dr. Harry Stack Sullivan provides some guides for effective clinical questioning that have equal applicability to business interviews.

Although Dr. Sullivan believes in the wisdom of proceeding from general questions to more specific ones, he warns against getting nothing more than "socially correct" answers if the pattern of your questioning is too apparent. He suggests moving about to other topics and coming back again if necessary.

In a hiring situation, for instance, an applicant may become accustomed to a particular line of inquiry that many interviewers follow, and he will tend to meet these expected questions with conventional answers.

If the interviewer asks the usual questions—"What was your last job?" "What were your reasons for leaving?" "Where did you work before that?"—the interviewee can roll along giving stock answers. Consider how much more revealing the answers can be when the questions are asked in this way:

"What would you say was the most promising job you ever had?"

"What did you like least about that job?"

"What kind of people do you work with best?"

These questions are a little off the beaten track and obviously do not lend themselves to routine answers. They are concerned with attitudes which the interviewee may not have formulated for himself before.

LEADING QUESTIONS

One of the deadliest sins in interviewing continues to be the leading question. This is the kind of question that is so worded as to invite a given response. For example, questions beginning with such

phrases as "Would you agree that . . . " or "Are you in favor of . . . " predispose the interviewee to give an affirmative answer. They are of little help in eliciting information.

Less obvious is the pitfall of the "loaded" question. One way of inadvertently loading questions is to use language that reveals one's own biases and prejudices. Once the interviewer tips his hand about his personal preferences, he's inviting the interviewee to conceal any differences of opinion. For example, an executive who uses phrases like "the union boys" or "soapboxers" in referring to union delegates can hardly expect to be perceived as impartial, and a subordinate faced with this tip-off will be likely to color his answers to suit.

DEAD-END QUESTIONS

One of the payoffs of a well-conceived question is that it opens the way to further information. For this reason, it's usually a good idea to avoid questions that can be answered by a simple yes or no. Consider, for example, the possible responses to a question like "How do you think you might improve in the future?" as compared with "Are you trying your best?"

Similarly, insight into personality and attitudes can be obtained from such questions as "What was the most interesting part of your responsibilities in your last job?" or "How did you happen to hear about this company?" or "Where do you hope to be ten years from today?" But remember: unimaginative wording of any of these questions can bring a one-word response that will throw the ball back to you again.

THE DISARMING QUESTION

In some interview situations, a disarming question may be the best way to break through resistance. This is especially true when the interview concerns a delicate problem—one that may eventually require the interviewee to admit to an error in judgment or some failure in his performance.

One way to handle such a situation might be to suggest that everyone makes mistakes, and to bring the conversation around to slip-ups that have occurred in the past. The interviewer might even relate an incident in which he himself was involved (though it

must be cautioned that any deliberately protracted discussion along these lines or artificiality on the part of the executive will cause the interviewee rightly to wonder what it's all leading up to). When a genuine atmosphere of understanding and acceptance has been established, the interviewer might say something like, "I'm going to ask you a frank question . . . " and then ask the direct question he has in mind.

Surprisingly, a person who resists other approaches will often respond to a straightforward question like this—if the atmosphere seems right to him. He may, in fact, readily discuss questions which the interviewer hesitated to broach earlier.

Of greatest importance is the effect of such disclosures on the entire relationship. For the value of the disarming question is not necessarily the direct information it elicits, but the improvement it can bring to the future give-and-take between the people.

SILENCE—OR THE IMPLIED QUESTION

No matter which side of the desk they happen to be sitting at, people often feel a certain uneasiness over silence. Thus, when the interviewee pauses, the inexperienced interviewer often becomes tense himself and feels that the burden is upon him to think quickly of another question and keep the conversation rolling.

However, experience shows that the most valuable insights and information often come after a short pause. Particularly when you are interested in elaboration, a brief silence indicates to the interviewee that you feel he has more to say and places the burden on him to take it from there.

INDIRECT QUESTIONS

One of the questioning techniques more commonly referred to than understood is the nondirective or "mirroring" approach. The basic idea of nondirective questioning is that the interviewer encourages further elaboration without asking direct questions. He may say, "I'm not quite clear on how that came about," or "Would you explain that in a little more detail?"

The strictest application of nondirective interviewing may not always be appropriate to the industrial situation, except possibly for counseling purposes. In a selection interview, for example, where

the main purpose is to determine the qualifications of the applicant for the job, a more structured type of interview is generally preferable.

The primary value of the indirect method of questioning is that it enables the interviewer to encourage elaboration and to gain information without building up resistance on the part of the interviewee. Where a more direct request for further information might put an employee on guard against revealing too much of himself, the indirect question has definite value.

WHERE FIRMNESS IS NECESSARY

It is by no means necessary for the interviewer to be "soft" at all times. On the contrary, the best-intentioned person may do a disservice to all concerned simply because he becomes too sympathetic with the interviewee. There are times when firmness is clearly called for.

For example, a subordinate—particularly if a discipline problem is involved—may be unresponsive to all attempts to draw him out. In such a situation, it is imperative for the interviewer to take the lead. In doing so, he should communicate respect for the person but at the same time make it clear that he is responsible for—and expects to get—the proper information. He may insist on getting the matter cleared up or on having any facts he needs by emphasizing that, without them, he is in no position to reach a decision. His questions should be straightforward. He is certainly within his rights to ask his subordinate what he intends to do about the problem. This exercise of authority may result in an unbending on the employee's part. If so, the interviewer may be able to ease up and use fewer direct questions. In any event, he should encourage the employee to take some action on his own to change for the better.

HOW MUCH IS ENOUGH?

There is no rule of thumb as to the appropriate number and kind of questions that make up a successful interview. In general, however, where too many direct and specific questions are thrown out by the interviewer, he may unwittingly dominate the discussion and thus discourage the interviewee from volunteering information.

Many experienced interviewers claim that anyone who talks more than 50 per cent of the time has not conducted an interview; he has been interviewed himself.

The key to the matter lies, in the final analysis, in maintaining the relationship. The appropriateness of your questions will be dictated by the purpose of the interview, but in *all* situations the basic goal is good rapport—and attaining this goal requires patience, acceptance, and understanding. ♦

A NEW PROGRAM OF MANAGEMENT RESEARCH GRANTS

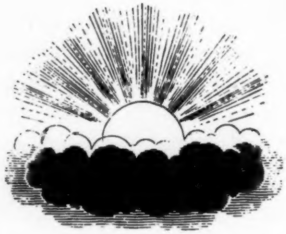
The Academy of Management, a professional association in the field of business education, is pleased to announce a new program of management research grants to be undertaken with the cooperation and support of the American Management Association. The Research and Publications Committee of the Academy of Management invites the submission of management research projects in accordance with the following procedure:

1. Proposals may be submitted to any full-time faculty member of a department, school or college of business administration, or of a department or college in fields related to management. Applicants need not be members of the Academy.

2. The Committee will examine the proposals received and recommend to AMA those that most merit support. AMA will then grant funds in support of the projects it will select from those recommended. The total of these awards for 1959 is expected to be approximately $5,000.

3. A proposal should state the specific nature of the research work being undertaken, explain why it is needed, relate the proposed work to previous work in the same area, and specify the nature of the results that are expected. The proposal should include an estimate of costs together with suitable explanation, an approximate time budget, and the estimated date of completion.

4. A letter of endorsement by the applicant's department head, indicating the applicant's general capacity to complete his project and the amount and nature of departmental support, should accompany each proposal. The deadline for submitting proposals is April 30, 1959. Before submitting a proposal, applicants are requested to write for full details to D. E. McFarland, Chairman, Research and Publications Committee, Academy of Management, c/o Department of Personnel and Production Administration, Michigan State University, East Lansing, Michigan.



THE RECESSION'S SILVER LINING

Condensed from Business Week

THE BIG THING was that the recession gave us an opportunity to do house-sweeping."

"Management is more conscious of economic shifts now than it was before the recession."

"The recession gave us the occasion to trim some fat that would have been hard to get rid of in more prosperous times."

"The recession didn't last long enough for us to do all the things we wanted to. Sure, we're glad to be coming out of it. But we could have used more time to work out some more operating improvements."

The late recession passed away unlamented by the generality of man. But for a lot of businessmen—the quotes above are typical—there was a blessing among the pains: The very tightness of the squeeze forced them to overhaul operations that had grown soft during the fat years.

Consolidations of departments provided some sizable economies, for example. A steel company saved an annual $20,000 just in office rent by combining such departments as purchasing and traffic; wage economies were even larger. In the South, a paper company combined separate art departments whose peak loads did not coincide. The result: big savings in overtime.

Eyes seeking economy fell on mountains of accumulated papers, and on unneeded new papers piling up. A GE plant threw out 13 tons of aging records. In Milwaukee, Bucyrus-Erie saved $50,000 by cutting out unnecessary forms and reports. A steel company, by cutting reports by 5 per cent, speeded approval of requisitions by a week.

The quest for unnecessary reports had an important by-product: Companies discovered that there were reports they needed that they didn't have. Basic, Inc., a steel industry supplier, now circulates reports by the staff economist to all executives; it figures it could have braced itself better for the recession storm if it had done this in 1957. As an example of the new planning: Basic's Nevada plant is running full blast, way ahead of current demand, to meet calls that the economist figures will come in mid-1959. (ED NOTE: *For a report*

on the growing use of staff economists by U.S. companies, see p. 57.)

For many companies, the recession's left-handed benefits were greater in terms of positive new improvements than of eliminating dead wood. For one thing, the able top brass were frequently given more control as companies shifted away from decentralization by taking away some of the autonomy given to lower echelons. In Atlanta, a big company created the post of manager of all domestic business; he rules over previously powerful regional managers. In Los Angeles, the very decentralized Consolidated Electrodynamics Corp. found it expedient to tighten things up with a whole new level of vice-presidents. A. O. Smith Corp. and Beckman Instruments, Inc., were two of many companies that made a complete switch to centralization.

The new centralization brought a dividend in labor bargaining, with more powerful managers finding they could get tougher. Says a plant manager in Hartford: "We tried for seven years to get the union to accept an incentive pay plan, and failed. But it's in the contract this year."

Revitalized top management also went to work on inventory control. Over-all, inventory took a real beating during the recession, dropping from a $91.3 billion high in September, 1957, to a low of $84.9 billion last October. Much of that drop was due to falling sales, but many a business reported that it discovered ways to live with a smaller ratio of inventory to sales, by using new controls designed for permanent service in good times as well as bad.

A New England company took to warehousing stock in five regional centers, instead of in 110 branches; it cut finished inventory by 50 per cent. In San Francisco, an outfit attacked inventory so vigorously that it tacked a higher price tag on fast-delivery goods that had to be transported from regional warehouses instead of from the main plant.

Accounting systems for both costs and production become more popular, with rule-of-thumb methods suffering an eclipse. A Pennsylvania plant got rid of a two-to-three day delay in job reporting by installing phones close to each machine operator. Now the operator simply phones in whenever he starts or finishes a job; before, he had to fill out a card which oozed along through channels to the accounting office.

With the new well-stropped accounting and reporting methods, management found it could do more intelligent budgeting. This didn't mean budget pruning in all cases; smart companies found spots where spending more money would bring more profits. These boosts took many forms: harder selling, new tools, more research.

To step up sales, Lyon Metal Products, Inc., Illinois, instituted regular district sales meetings. Another midwestern company "refreshed" its dealers with a monthly correspondence course on sales techniques. Other outfits gave salesmen an economic prod with higher commissions—and lower base pay.

Invading new territories was frequently tried. A Georgia trailer maker began distribution in seven western states. Tuboscope Co., a Houston sleuth for oil pipe defects, expanded

clear into the foreign field—"the recession showed us that we are going to have to learn to compete with the rest of the world." A Connecticut company opened its first new office in 34 years, in Charlotte, N. C. Modern machinery won the respect of many companies during the recession. An Alabama textile mill says it is spending millions on labor-saving machinery. Management explains: "It's the only way to fight synthetics and foreign textiles."

And more and more companies are giving boosts to their research and development budgets. One packaging machinery maker, whose R&D budget is up 30 per cent this year, puts it this way: "If we do a good job developing new products, another recession won't have the effect this one did." ♦

"In short, we highly recommend this company's stock—they pay a steady quarterly dividend, have excellent growth prospects, and serve a really delicious box lunch at their annual meetings."

—The Wall Street Journal

Should retirement be compulsory or voluntary? Management is still seeking the answer to this important question . . .

WHAT IS THE RIGHT TIME TO RETIRE?

By John L. Springer

Condensed from The New York Times Magazine

TWENTY-FOUR years ago an alluring vision was added to the American Dream. It was the vision of happy, carefree retirement for the working masses. Aided by old-age payments under the Social Security Act of 1935 and by corporate pension plans newly added to work contracts, the average employee could look ahead to years free from want and tension. He could fish, hunt, travel, or enjoy other activities he had always lacked the time or money for. Retirement would be his "golden years." So the vision ran.

Today, however, social scientists, doctors, corporation executives and many retired persons themselves are no longer convinced that retirement is the happiest, or even a happy, time of life. In fact, increasing numbers are convinced of the opposite. They center their fire mainly on the common rule in business and industry which says that when an employee reaches a fixed age—usually 65—he must quit working and accept a pension. Arthur S. Fleming, Secretary of Health, Education and Welfare, recently has called compulsory retirement at 65 "a lazy man's device for dealing with a difficult problem."

The rank-and-file opposition to compulsory retirement was summed up by one man who was forced to quit work three years ago after forty-four years with a large electrical concern. "When I was 45, the thought of moving to Florida and sitting in the sun was a beautiful dream," he said. "Ten years later, it still seemed like a good idea, but I had begun to wonder whether I'd really enjoy loafing all day long. When I reached 65, I was almost sure I'd be bored to death, but I was willing to try. Now I'd work for $10 a week if I could get a job."

Of course, many persons do adjust well to retirement and live happily ever after. But if you consult social scientists who have studied what enforced leisure does to people who do not want to retire, you find that their records bulge with examples like these:

• A vice president of a large corporation retired at 65 because company rules said he had to. After

eleven months in which a sense of uselessness and loneliness mounted, he killed himself.

• Soon after retiring, Mr. A. began developing aches and pains. Friends who see him now cannot believe that this semi-invalid is the same person they knew. His doctor can find no physical cause and puts the blame for all the ills on one factor—boredom.

• A retired factory worker goes from door to door in his community pleading for work—any work. He does not need the money, and those who give him small jobs are often embarrassed because he is so patently grateful for the chance to serve.

The problem of what to do with aged workers is not, of course, a private one between the employer and employe. It is society's problem—and a growing one. Latest available estimates indicate that 15 million Americans—about one-twelfth of our population—are covered by private pension programs, almost all of which state that employees must put down their tools at a specific age. In addition, 50 million Americans are covered by federal old-age insurance under the Social Security Act.

The number of Americans at retirement age increases by almost half a million every year; in 1965, persons in this category will constitute a population equaling that of the United States in 1858. And while the number of oldsters increases, the percentage of those employed is declining. In 1920, before Social Security and pensions, 55 per cent of men 65 and over were at work. In 1940 the rate was down to 42 per cent. At present only about 30 per cent of men 65 and over are in the labor force.

G. Warfield Hobbs, chairman of the National Committee on the Aging, says that compulsory retirement and pension plans have robbed the nation of skilled technologists at a time when we need them in the missiles race with Russia.

A survey by Hobbs revealed that half of our 32,500 engineers and 9,000 scientists over 65 are retired. "We talk of educating youngsters in science," he says, "but we neglect the obvious truth that a scientist in the hand is worth two in the cradle." Despite shortages of science teachers in the schools, thousands of pensioners who might be utilized remain on the sidelines.

Other critics say that the folly of forced retirement at 65 is proved by the success of organizations which hire only those required to stop working elsewhere. Hastings College of Law of the University of California adds to its faculty only professors retired by other law schools. The average member of the faculty is 73, but Roscoe Pound, dean of Harvard Law School from 1916 to 1936, has called it "the strongest faculty in the country." Dozens of organizations—like one headed by Walter D. Fuller, former chairman of the Curtis Publishing Company—make the services of pensioners available to industry on a part-time basis. Fuller has a list of 500 high-level executives with invaluable experience—and their talent is in constant demand.

However, there is a severe drawback to a part-time employment program for older people. It lies in the provision of the Social Security Act

that, when women reach 62 and men 65, they must not earn more than $100 per month or they will forfeit their retirement benefits.

The regulation exists partly to create employment opportunities for the young by pressing retirement on the old. But it penalizes industrious older persons who seek to supplement their income. If, psychologically, the Social Security Act, offers them the security of knowing they will not be destitute in their declining years, it may also promote insecurity by forcing them into a life of inactivity.

Gerontologists—medical men who specialize in problems of old people—have testified that forced leisure often results in "retirement shock"—a numb inability to adjust that leads to depression, illness, and premature death. Dr. Don E. Johnson of Philadelphia says that some persons are emotionally equipped for work only, and seem unable to turn their interests elsewhere. They have "more time and plenty of energy for previously latent maladjustment to come to full bloom and dominate all spheres of living." They become anxious, depressed, self-critical—and miserable.

If compulsory retirement systems have proved so defective in practice, why were they adopted in the first place? Basically, their sponsors made a fundamental error in assuming that the average person views loafing as a more desirable way of life than working. As Dr. Gunnar Gunderson, president of the American Medical Association, said recently, they ignored the basic fact that productive work is the very heart of life.

Personnel managers who still favor compulsory retirement often argue that the older employee has more accidents, lower productivity, and higher absenteeism than the younger one, and that younger employees deserve to be promoted to positions held by older workers. Social scientists reply that statistics prove the average employee over 65 is more responsible and careful and is absent from work less than the average younger one and that most old persons would gladly take lesser responsibility so that younger ones could advance.

How can we correct the obvious defects which have come to light with experience? A few farseeing employers now do three things:

1. Recognize that some men are still physiologically young at 65 and are more capable of productive labor than prematurely old men of 45;

2. Utilize the services of older workers, even in part-time work, where possible;

3. Try to minimize the "retirement shock" of those who willingly retire or who are severed from their jobs because they can no longer do their work.

Some employers have adopted "do-it-yourself" retirement programs. Thus, Carson Pirie Scott, the Chicago department store, has no compulsory retirement age. But each year every person 65 or older receives a physical examination, and a company official reviews his work record. When facts suggest that the employee should retire, he is encouraged to make his own decision to do so. In this way, says a company official, "the dignity of the individual is spared."

To the objection of management men that this method might result in

an accumulation of employees who have outlived their usefulness, the store personnel counselor replies that when a worker is given the facts and helpful guidance, he makes the decision that is best for him—and the company.

Other firms make retirement optional—on their part as well as their employees—at 65 or later. Last year the Consolidated Edison Company of New York adopted a policy of annually reviewing work records of employes from 65 to 68. About 95 per cent of the workers are given the option of staying on after 65 if they desire. Dwight Sargent, personnel director, says that those who remain earn more than twice what they would receive in pensions and their morale continues high because they are making a useful contribution to society.

Many large corporations—the General Electric Company, Westinghouse Electric Corporation, Standard Oil Company of New Jersey, United States Steel Corporation, Con Edison and others—try to find part-time jobs for retired workers. In some concerns, business fluctuates on a seasonal basis and extra workers often are needed for a few months. Retired persons often substitute for regular employees during vacation periods, and may work in retail stores during the Christmas season.

The errors of compulsory, abrupt, and unplanned retirement will not be corrected suddenly. Widespread adoption of new policies is not expected for many years, just as today's fairly universal pension plans were many years in the making. But many experts also believe that changes are inevitable, for society's well-being and for the happiness of millions. ♦

Is Everybody Happy?

A TEN-POINT INSURANCE POLICY for high morale has been designed by Prof. H. S. Bretsh of the University of Michigan, who feels that an employee who can meet these requirements should be happy as a lark:

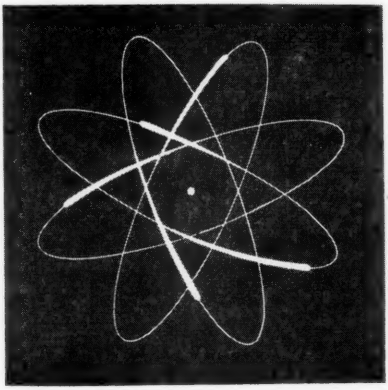
- He knows what's going on that affects him.
- He has a feeling of belonging, probably due to participation in some of the affairs of his department or his company.
- He has a feeling of mastery. The difficulty of the task is unimportant, as long as it is recognized as important to the company's total effort.
- He knows that ways and means of solving interpersonal problems exist. This is comforting even if he doesn't need to use them.
- He believes that every effort is made to take the anxiety out of his work situation, to make his job and his relationships pleasant.
- He feels that people pay attention to him when he makes a point or voices a gripe.
- He knows there are channels through which his grievances may be heard.
- He feels that pay and position are coordinated.
- He knows there is opportunity for advancement.
- He knows he has integrity and worth, even though he may have less authority than some people.

—*Factory Management and Maintenance* 10/58

THE GROWING PAINS OF NUCLEAR POWER

By Ernest Le Monnier

Condensed from Dun's Review and Modern Industry



NUCLEAR POWER, conceived sixteen years ago last month in a University of Chicago laboratory, is passing through a troubled adolescence. A growing, maturing, and potentially indispensable force for sustaining the world economy, it is, nonetheless, still industry's most expensive "dependent" and one which isn't likely to become self-supporting for five or ten more years.

How does nuclear power stack up now, and what can industry expect from this slowly developing giant in the future? Here are some of the hard facts:

• Eight nuclear power plants in operation, fifteen more building and projected for completion by 1964. Total capacity: about 1.3 million kilowatts of electric power.

• Nuclear energy at the power station busbar today costs anywhere from 35 to 65 mils per kilowatt hour. Steam power ranges from 4 to 10 mils per kilowatt hour.

• Nuclear power plants completed or building are estimated to cost about $450 per kilowatt of capacity. New steam stations average around $150 per kilowatt.

• The Atomic Energy Commission has spent $1.4 billion since 1950 in the development of nuclear reactors. By the end of the year electric utilities estimate they alone will have spent $140 million for nuclear power.

Obviously, nuclear power is a costly affair, and it is a long way from being competitive with other sources of energy.

The dreamers of an atomic future got an awakening jolt when the economy balked in mid-1957 and refused to follow the smoothly beaten path of statistical uptrend. The business recession and defense cutbacks, added to the rising nuclear costs and increasing technological difficulties, slowed atomic divisions and nuclear

companies were forced to curtail or cease operations.

Was this sudden nuclear power "fallout" merely symptomatic of chronic recession ills and defense cutbacks? Or does the real cause lie deeper?

At the core of the problem are three basic economic facts: (1) the United States is energy rich; (2) the U.S. economy is based on competition; and (3) military and civilian uses of the atom's power are inseparably linked.

In 1955, central power stations consumed only about one-third of the bituminous coal mined. And year by year central stations have made thriftier use of coal. In 1907, it took 5.4 pounds of coal to generate a kilowatt hour of electricity. In 1957, central stations averaged 0.93 pounds. And J. H. Harlow, chief mechanical engineer of the Philadelphia Electric Company, predicts that new stations built in 1980 will use only 0.60 pounds.

Increasing efficiency spells steady lowering of costs and prices. It means stiff competition for nuclear power—when competition determines survival. Years of experience with working nuclear power reactors will be needed to meet, then beat, fossil fuel efficiency and costs.

However, a recent study of the productive uses of nuclear energy made by the National Planning Association spotlights some promising opportunities for using nuclear energy outside the power field.

In the economy as a whole, NPA points out, five-sixths of total energy is consumed for purposes other than electric power generation. Thus, even excluding possible uses of nuclear power for house heating and in transportation, the area of potential application is quite large.

In 1954, manufacturing industries consumed the equivalent of 350 million tons of coal for generating process heat. More than one-third of it was consumed by industries requiring low-pressure steam, which can be generated by many types of nuclear reactors now in existence or under construction. For these industries and for industries in certain geographic areas, such as New England and the Great Lakes region, reactor-produced process heat might soon become economically feasible.

Still, the survey points out, in most industries heat energy represents a relatively small portion of total manufacturing cost, and even if it should become quite inexpensive, it does not appear that nuclear energy could bring about substantial over-all cost reductions.

Nuclear energy's best chance of competing with conventional fuels lies in those industries where low-pressure steam is used in large blocks, where productive processes are continuous, and where plants operate on a year-round basis. Unless other uses for energy (in the form of heat, power, or radiation) can be found, the disadvantages of the expected heavier fixed charges of reactors, as compared with conventional boilers when operated at a low load factor, cannot be overcome, even in regions with fairly high fuel prices.

The years intervening before the nuclear power industry can pull up even with its competition are critical. How long will the struggle take?

Philip Sporn, president of American Electric Power Company, in whose industry nuclear power's battle for survival will be mostly fought, looks for only gradual improvements over the next twenty years. But they will add up to a major technical and economic achievement, he feels. His estimates: By 1975, five per cent of U.S. electrical capacity will be nuclear; between 1975 and 1980, capacity added will be 25 per cent nuclear.

At any rate, it seems certain that the next ten years, at least, will be the hardest. It will take both capital and faith to bridge the gap. Of faith there seems to be an unending supply, despite chronic difficulties. Such conservative groups as the utilities' Edison Electric Institute see a "bright future" for atomic power. Proof of their faith can be seen in the utilities' half-billion dollar commitment to nuclear power projects.

Most of the authorities on world resources agree that by the year 2000, readily accessible deposits of all fossil fuels will almost certainly be nearly exhausted. The world's energy demands are going up at a furious rate (estimates range from about 12 to 38 billion tons of coal-equivalent a year by 2000), and atom power must be ready to take over well before the cut-off point. This is the reasoning behind interim support for atomic power development. Since the costs of nuclear power development are enormously high, private industry can only figure to lose until the break-even point is reached. Hence the government's vital role in the task of developing industrial uses of the atom.

Under the Atomic Energy Act of 1954, the AEC began to work in cooperation with industry. By mid-1958, only five industry-government contracts had been executed under the government-sponsored Power Demonstration Reactor Program, and only about 77,600 kilowatts of electric power output were being produced from civilian nuclear power plants and reactor experiments.

No new additions are expected in 1959. But the AEC timetable is to be stepped up to 384,100 kilowatts net output by the end of 1960; 826,500 by 1961; 1,130,500 by 1962; and 1,326,500 by 1963. This would amount to roughly $500 million at present costs per kilowatt of capacity installed. Over a period of five years, will this be enough to support a new industry faced with the high cost of men and materials, research and development?

Apparently not. Only about six companies are deeply involved in the atomic power reactor business in the United States at present. The old hands like General Electric, Westinghouse, and Babcock & Wilcox, who have headed the field in the manufacture of heavy electrical equipment, have invested heavily almost of necessity. They have also reaped the greater share of military, naval, and civilian contracts.

Still other, smaller companies are eager to learn something of the new technology. Although they can't afford costly nuclear research, many are able to get into the act by undertaking design studies, development, manufacture, and test operations under contracts with the AEC.

But a limited R & D budget can go only a little way in the new tech-

nology. Some costs are underwritten by the AEC for development studies and the like, but the rest is out-of-the-pocket expense that may not be recouped for ten years or more. Although the money risk is small—everyone concedes that nuclear power is inevitable—waiting out the interim can put a serious strain on the resources of most companies.

One way around the high-cost problem is the multi-company development team approach. Power Reactor Development Company, composed of seventeen electric power companies and six manufacturers, is one such nonprofit corporation. Organized in 1955 to build, own, and operate the fast breeder reactor of the Enrico Fermi Atomic Power Plant, this group expects to produce 90,000 kilowatts of nuclear power after start-up in 1960. Another nonprofit group active in the same project is Atomic Power Development Associates. For nearly seven years this group of about 40 electric companies, manufacturers of electrical apparatus, and engineering concerns has made nuclear power design studies. The AEC contributes to this about $4.5 million for special research and development work.

At the moment, the complexity of nuclear power is immense. Perhaps in a decade, simplification will have been achieved. But by that time it looks as though we will have to face the same problems all over again. Even more complex economic, political, and technical problems are foreseen, which may keep thermonuclear or fusion power beyond our grasp for many years to come. ♦

Why People Save

LONGER LIVES, burgeoning families, and the perennial fear of a rainy day appear to be the prime boosters of consumer savings. This is the finding announced by the Inter-University Committee for Research on Consumer Behavior, which conducted intensive interviews of 206 consumer saving units in St. Louis last summer. Nearly everyone (98 per cent) cited provision for old age as an incentive to save. Rainy-day emergencies came next, with 60 per cent; children's education ranked third, with 44 per cent. Only 29 per cent were saving to leave an inheritance to children; 18 per cent had a particular purchase in mind, such as a car or furniture; another 17 per cent aimed at buying a house, and the same number were saving for a trip or vacation. A great majority considered saving a necessity; about one in ten give it priority "under any circumstances."

On the important question of how free people should feel to draw on savings, about one third felt savings should be used for emergencies or not at all; another third would add big-ticket purchases as a legitimate use; and the remaining third, mostly young people with incomes under $7,500, felt that savings are to draw on whenever it becomes necessary to supplement income.

—*Business Week* 1/31/59

Wanted: Inflation-Proof Insurance

By Henry W. Steinhaus

Condensed from West-East Insurance Monitor

INFLATION is creating new worries for the nation's insurance companies. They are faced with the problem of counteracting its effects on both their own costs and the purchasing power of insurance benefits.

Long-term contracts—such as life insurance and annuity contracts—are particularly vulnerable to inflation. The expense margin in the premium rate is fixed. But as costs rise with inflation, this expense margin becomes increasingly inadequate. For a time, mortality, surrender, and interest gains may offset this, but unless enough new business with adequate expense margins comes in, administrative operations of many insurance companies will have to be severely curtailed.

Because of competition, an insurance company may not be able to provide for increasing expenses in its premium-rate construction. Therefore, it must direct its efforts toward achieving administrative savings through increased efficiency; for example, by using modern data-processing equipment. Adoption of level commission scales (by spreading the normally high first-year commissions over the renewal years) may permit a greater volume of new business without endangering the surplus accounts which normally finance such new business. New insurance policies of shorter duration—mortgage insurance, for instance—may be adopted. Another approach is the development of more easily administered premium collection techniques, such as collection by automatic deductions from checking accounts.

Almost all of the nation's insurance companies have entered the field of group insurance, for which premium rates can be changed from time to time. Finally, insurers may be permitted to increase their investments in equities in the hope of using capital gains for expense margins. However, legal requirements may force the insurance companies to allocate such capital gains to their policyholders.

What can be done to provide policyholders with inflation-proof coverage? This, of course, is not a problem in the fields of mortgage insurance and credit life insurance, since the insured's obligation is also fixed. But it is of paramount importance in cases where a widow or pensioner depends entirely on insurance proceeds for a living. Because of the damaging effects of inflation on such policies, there has been a substantial shift recently from insured pensions to trusteed pensions and a marked preference for equity

West-East Insurance Monitor (November, 1958).

investments over mortality guarantees.

In some countries, companies are offering insurance and pension contracts which are tied to a cost-of-living index or a similar measure of purchasing power. It is not a coincidence that in these countries the national social insurance system is on a similar basis. No private insurance system can hope to endure in competition with a government system that guarantees the purchasing power of investments—unless it offers the same guarantees.

In countries where the government provides inflation-proof investments that the private insurers can use, the creation of such policies is fairly easy. In other countries, insurers must resort to equity investments—if permitted—or concentrate on term insurance in order to minimize the investment problem. An insurer might anticipate creeping inflation by offering policies with increasing benefits, say, at the rate of 2 per cent a year. By payment of a pension in lieu of a fixed sum, the insurer can take advantage of the fact that as the age of the beneficiary increases, the required capital sum is reduced. This would stabilize, at least partially, the cost of the 2 per cent implementation.

Companies in the fields of casualty and property insurance are also feeling the effects of inflation. Their problems are different, however: in short-term contracts the difficulty is not shrinking expense margins but rapidly rising claim costs, including investigation and settlement costs. It is true that in disability coverages and in workmen's compensation the exposure varies with wages, thereby giving stability to income. However, the claim awards in workmen's compensation cases have risen more rapidly than wages, partially because the determination of a loss involves the compounding of future earnings at current inflated rates.

Similarly, liability claims have shot up. Not only have direct insurers found themselves with higher loss ratios, but the reinsurers of excess-of-loss treaties have had to absorb an uncomfortable part of the claim rise. Underinsurance due to inflation has plagued fire insurers, while marine insurers have been hit by rapid rises in agreed-upon valuations.

A wave of mergers may be the answer of insurance companies to the damaging impact of inflation. Casualty companies and property insurance companies already are going into the life insurance field and life companies are going into their fields. Their goal is to provide maximum comprehensive coverages against all types of risk at minimum acquisition and administration costs. Comprehensive household policies, for example, are being combined with family life insurance to allow maximum use of sales forces. Combining companies, either in the same or different fields of insurance, makes possible the streamlining of home office, inspection, and adjustment procedures. It also frees reserves for investment in further expansion. In fact, some companies are expanding their operations to other countries. Such international expansion is a further attempt to gain security through the diversification of investments as well as insurance operations. ♦

MANAGEMENT OVERHEAD:

TOO MANY CHIEFS?

By C. Edward Weber

Condensed from Business Horizons

MANAGERIAL OVERHEAD is a delicate issue in many firms. Public company statements often ignore this item—except, of course, for the compensation of top executives—and managerial overhead usually remains unidentified, if not concealed, in the larger administrative and sales figure. Although companies are reluctant to discuss the extent of managerial overhead with outsiders, they seem to be concerned, and many do make sporadic efforts to impose arbitrary limits or across-the-board cuts.

Studies by the Industrial Relations Section of Princeton University indicate that a variety of companies have recently had dramatic increases in their managerial organizations. This growth may be part of a long-term trend. Combined managerial, sales, and clerical help have taken over an increasingly large proportion of all hourly employment in manufacturing since the turn of the century. Perhaps a significant share of this relative increase can be attributed to management alone, since the history of business organization has been one of specializing and extending managerial activities.

Setting arbitrary limits or making across-the-board cuts will not be practical if there has been no consideration of the reasons for changes in the relative size of management. Here are some reasons that have been advanced:

Empire Building. The obvious explanation for the increased number of managerial personnel seems to be the elaboration and extension of their functions—managing risk, planning and innovation, coordination, administration and control, and routine supervision. In other words, it appears more plausible that the phenomenon is attributable to an increase in work rather than to a decline in managerial effort. The problem is this: Is the extra work worthwhile?

Perhaps the activities are added as

Business Horizons (Winter, 1958), © 1958 by The Foundation for Economic and Business Studies, Indiana University

a result of empire building. Spiraling costs result when each man strives to enhance his relative stature by building a managerial organization that is bigger than those of his rivals. Other pressures may also be generated for continued expansion: A proliferation of memoranda, committee meetings, and other devices for communication is likely to arise out of the efforts to integrate and coordinate the additional activity, and this proliferation may necessitate the subdivision of managerial jobs.

These and other variations of the empire building theme are so persistent and so generally accepted that they cannot be dismissed. There is every indication that empire building does exist and that it is a powerful force in some instances. But can we say that it is the dominant force underlying the growth of management?

Company Size. More extensive company operations are sometimes offered as the reason for larger managerial organizations. Available evidence suggests, however, that company size is not a determining factor in the ratio of managerial personnel to other personnel. The more intensive use of specialized services, which is possible in larger organizations, apparently outweighs the greater difficulties in administering larger organizations. Furthermore, greater administrative difficulties do not necessarily result from an expansion in the output of the organization.

Technology. The ratio of chiefs to indians appears to be higher in capital-intensive industries. One may argue on the basis of this association that managerial overhead is dependent on the level of technology. The evidence suggests, however, that technological advance does not regulate the ratio of line and staff management to the rank-and-file. In recent studies, comparisons made between technological development and the administrative ratio for U.S. manufacturing industries showed that increases in the administrative ratio did not correspond to increases in labor productivity or the use of horsepower, and that industries noted for mechanization did not account for the over-all rise in the ratio for manufacturing. These comparisons are rough because they lump clerical with managerial employment and because labor productivity and horsepower inadequately measure technological advance; yet the comparisons are indicative.

Dynamics of the Firm. The dynamics of the firm is a dominant reason for an increasing ratio of managerial to total company personnel. Every aspect of change presents new problems, which begin with innovating and planning the change and extend to coordinating, administering, controlling, and supervising the enterprise in the process of making the change.

A dynamic situation can be generated from a variety of circumstances. In a study of five firms, such circumstances included the expansion of output; the rising cost of labor, material, and capital, and the intensification of the competitive situation; the need to develop new products and technologies; the necessity to accommodate to the work force and trade unions.

Coping with such problems requires larger managerial staffs than

are needed to deal with repetitive problems arising out of unchanged activities.

To determine the causes of a growth in managerial overhead, there is no substitute for a painstaking and judicious review of the situation. This may begin with the goals of the firm, which should be defined in specific terms. Are the goals adequate to insure the profits and well-being of the company? A critical review may reveal that a particular objective is not worth the effort or that there is a serious gap in the objectives.

The evaluation can then be directed to the activities of the business in which managerial overhead is large. What contribution do the activities make to the goals of the firm? Is the contribution worth the cost? A ruthless appraisal should be made if the contribution is nebulous, if it is justified only on the grounds that other firms engage in such activities, or if it is said to be intangible. Perhaps effective results can be obtained from reduced operations; perhaps the entire operation can be eliminated without impairing the success of the firm. An analysis, on the other hand, may indicate that an existing activity should be strengthened or a new one added.

Managerial costs can be reviewed after the need is established for particular activities. What tasks are performed by managerial personnel? How do they contribute to the direction of the activity? Can the managerial work be eliminated without impairing the activity, or does managerial effort need to be enlarged to insure the success of the activity?

Where the basis for the relative growth of managerial personnel is found to be empire building, additional action is necessary. The prestige value of a large staff must be minimized. Top management must determine the nature of existing prestige symbols and attempt to set an example in order to increase the value of other prestige symbols in their organization, thus reducing the emphasis on empire building. ♦

Industry Puts Explosions to Work

THE NEW ART of explosive metal forming is attracting a growing number of users. Explosive forming shapes metal by exerting sudden explosive pressures on it so great that they are believed to turn the metal into a gluey liquid for a few millionths of a second—enough time to easily form it against a die. Scientists say that explosive chemicals can produce up to 7 million pounds of pressure per square inch, compared with a maximum of about 400 thousand pounds for a giant press that may stand nine stories high and weigh close to 11,000 tons.

Aircraft and missile makers are finding the process especially valuable for shaping tough, heat-resistant alloys designed for superspeed travel. Explosive forming also appeals to cost-conscious manufacturers who must shape a limited number of vital parts, but can't afford to invest $50,000 or more in specialized tools that would lie idle most of the time.

—Gordon McKibben in *The Wall Street Journal* 11/19/58

VISUAL ADVERTISING
GETS A NEW LOOK

Condensed from Printers' Ink

SINCE 1950, there has been a revolution in the graphic arts that carries profound implications for every visual aspect of marketing, including packaging, point-of-purchase, annual reports, and company letterheads, as well as newspaper, magazine, direct mail, and outdoor advertising.

This decade has seen more major developments in the graphic arts than any preceding century since the fifteenth, when Johann Gutenberg invented the mass printing process. The developments have been greater in number and—with the possible exception of the Linotype machine in 1884 and the halftone screen two years later—greater in significance. They give the advertiser a much wider range in which to work and many more methods of achieving results. The new techniques are thus responsible for a trend that demands a new kind of thinking by marketing personnel: The printed word is rapidly diminishing in importance, and the importance of the graphic design or visual symbol is rapidly increasing.

Color photographic reproductions are one example of this trend. A full-color reproduction of a chicken dinner is the dominant element on the Birds Eye frozen chicken dinner package. The carton containing Hood ice cream contains no descriptions or adjectives, merely the brand name, the flavor identification, and a full-color reproduction of a dish of ice cream. The label on the A&P can for frozen concentrated orange juice portrays rich, ripe oranges. These reproductions are all examples of the high degree of excellence that can be achieved in color printing at a relatively low cost.

The quality of color reproduction in magazines has also improved steadily and substantially in this decade, enabling advertisers to incorporate nuances, moods, and excitement never before possible. More than 60 per cent of all magazine advertising is now in color. Considering the higher rates of color advertising and the fact that many advertisements lend themselves to effective black-and-white presentation, this figure is a testimonial to the sales results chalked up by color.

Now the stage is set for newspapers to experience the same growth in color advertising. A recent *Printers' Ink* report on run-of-press color revealed that more than 800 newspapers use color of some sort, including 671 that offer three colors plus black. Run-of-press color linage more than doubled from 1951 to 1957, was showing an increase of more than 4 per cent in recession-hit 1958, and should rise 6 per cent this year.

Many advertisers have held back from newspaper color because they

consider the cost too high for the quality of color they get. This is a technical problem, one that is sure to be ironed out. One of the reasons that a number of newspapers do not offer run-of-press color, in fact, is that they're waiting to see what new color processes come along.

However the problems are resolved, one thing is certain: There is sufficient technical knowledge now to produce good newspaper color. The newspaper advertiser will have to reorient his thinking to color. If he sticks to black and white, will the brightness of nearby color ads dim the effectiveness of his ad? If he switches to color, how can he get the most from it?

There are also new bursts of color in point-of-purchase displays. Backlighted color transparencies, for example, have already been used extensively, but they are relatively costly. A number of cost-cutting solutions are now being offered to advertisers. One of these is gravure and photogelatin printing on plastic. Each impression is printed on both sides of the plastic, in order to achieve full richness of color.

Primarily because of developments in printing techniques, there has also been an evolution in corrugated paper from use solely as a shipping carton to a wide range of uses in point-of-purchase advertising and packaging. Manufacturers can now get high-quality color directly on corrugated board at a relatively low cost.

Fluorescent inks are just beginning to show their potentialities. Virtually every oil company has used them for outdoor posters or for trim on gasoline stations, and magazines have used fluorescent colors on their covers to give them impact on newsstands. Point-of-purchase advertising and direct mail have accounted for most of the use of fluorescent inks so far. The development of new inks that retain their fastness much longer is now contributing to a rapid rise of fluorescents in outdoor ads.

As a result of developments in this decade, it can be said that the printing industry is capable of printing anything on virtually everything. Probably nothing, however, will ever come close to challenging the pre-eminence of paper, one of the most widely used substances developed by man. Some 25 million tons of it are used each year for printing in the U.S. The vast range of papers now offered by American paper companies gives designers and graphic artists an unprecedented choice in stocks, textures, colors, and finishes—a range so vast that no single designer or printer can be familiar with all that is available to him. Mead Paper Co., Inc., recently opened a "library of ideas" in New York City in order to give printers and designers a sense of what is available to them.

It was only recently, for example, that paper companies offered fluorescent-treated papers to any appreciable extent; now, most paper companies supply them. The paper fluorescents convert some of the invisible ultraviolet light that strikes them into visible light. Thus the white isn't really whiter, it's only apparently whiter—but that's all that counts. Used for both color and black-and-white printing, fluorescent-white paper is said to produce sharper illustrations, better defined tones, better con-

trast in screen shades, and improved depth of colored inks.

Present-day advertising traces its origins back to days when the advertiser was satisfied if his printed words were legible; illustrations were little more than fuzzy decorations. But now, with the host of visual possibilities open to them, advertisers are frequently relegating words to a position secondary to other graphic symbols that can convey more, or they are reinforcing and embellishing the sales message with a graphic effectiveness never before possible.

One of the most forceful expressions of this point of view has come from Pierre Martineau, director of research and marketing, *Chicago Tribune*. "Historically, advertising started out as copy," Martineau points out. "It formulated good sales logic, dramatizing functional benefits of the product. But that isn't what modern advertising is at all. . . . It is the visual symbols in advertising, the nonrational elements that daub in nuances of meaning, that create a rich, positive product personality."

The seeds of a new approach to every visual aspect of marketing have been planted. The dramatic advances in graphic arts have given the advertiser a host of new tools and techniques. Advertising will never look the same again. ♦

The Rage for Beige

BEIGE, the nation's 1958 color favorite, will extend its reign through 1959, according to Faber Birren, color consultant to Monsanto Chemical Company's Plastics Division. This noted authority predicts that the remainder of the top ten consumer color preferences will be, in order of popularity: sandalwood, pink, oyster white, light green, turquoise, light blue, yellow, light gray, and rose.

As Birren sees it, the shift in consumer color preference is toward the more refined and muted hues; America is still in a "pastel era" that began about 1956 when the dark and vivid colors fell from favor. Beige and sandalwood rode in on a current trend that is now pulling up subdued tones of rose, brown, and gold. Meanwhile, pink, light gray, and light green—the big three of 1955—are clearly giving ground.

Birren's predictions are based on actual records of consumer sales; since 1946, he has been tabulating and analyzing sales figures on a number of retail products, including plants, wallpapers, fabrics, carpeting, appliances, housewares, and miscellaneous plastic goods. Here are some of his other observations on the color preferences of consumers: Ivory, which in 1946 accounted for more than half of all demand in ready-mixed paints, has fallen badly. Dark green and chartreuse, so popular years ago, have virtually disappeared. Dark gray (charcoal) has risen, descended, and returned in the form of taupe in the past ten years. And poor orange, despite vigorous promotion, has never made the grade—and it probably never will.

—*Manufacturing and Industrial Engineering* 12/58

EXECUTIVE FRIENDSHIPS:

Can They Hurt Your Company?

By Nathaniel Stewart

Condensed from Nation's Business

ONE OF THE MOST DELICATE and potentially damaging problems facing modern business is fraternization among executives. Naturally, fraternizing by individuals who are attracted to each other is beyond the boundaries of a company's prerogatives, policies, or control. It comes within the area of personalities, likes and dislikes, affinity among individuals, and the pursuit of social satisfactions, and there is no justification for company meddling in the personal affairs of employees.

But when fraternization becomes excessive—when it goes beyond friendship and sociability and distorts the manager's sense of conduct—it begins to make inroads on the character and effectiveness of the company, and it may warrant the establishment of protective safeguards for the good of the organization.

Fraternization takes shape in several ways. There is fraternization among managers on the same management level. There is the association of a supervisor and several selected subordinates—a practice that offers a high vulnerability to possible favoritism. And there is fraternization that mainly involves managers on the same level, but includes a member or two from an echelon immediately above or below.

It is the latter type that is of greatest concern. It can cut across functional lines, spill over into several vertical echelons, and carry potentially greater danger of an "in" group

that could influence company matters well beyond appropriate limits.

Various companies have reported evidences of such abuses as these:

- Too much inbreeding, smugness, and a false sense of self-sufficiency in certain management levels.
- Sacred cows that are not to be disturbed.
- Factions and factionalism, rather than informal cliques and sociability.
- Favoritism in boss-subordinate relationships.
- Discrimination in delegating authority, in making appointments to key committees, selecting men for promotion.
- Stalling and resistance to innovation.
- Blocking of ideas and proposals that do not originate within the fraternization group.
- Mobilization at staff meetings, where group members support each other in slanting the problem under discussion.
- Perpetuation of rivalries between line and staff.
- Lack of discipline in maintaining and enforcing company regulations.

In addition to these obvious abuses, there are others, even more potent but less easily visible, such as collusion that impairs interdepartmental teamwork, restricting the recognition and potential advancement of men who are not acceptable to the "in" group, informal communication far more powerful than the official communication lines, managers tempering their decisions in order to cover up for individuals because of personal relationships, and many other disruptive and morale-destroying abuses.

Company action, both in prevention and correction, calls for attack on several fronts:

The company creed should express management's position concerning relations among managers and set down some principles concerning the professional ethics and sense of conduct expected of managers. It should, of course, state the high value that the company places upon its human resources and acknowledge the freedom of each manager to seek personal friendships in and out of the company. But it should also point out that the manager carries certain obligations, and that foremost among them is the duty of setting a good example of personal executive behavior in mixing well, with dignity, and measuring up to his loyalties, both to individual friends and to the company.

Being on guard for possible abuses of fraternization involves alertness to actions at staff meetings, alibis for failing to meet deadlines, give-and-take during appraisal sessions, complaints or protests of other managers, inaction for a prolonged period after plans have been agreed upon, evidences of office politics, turnover among the younger managers, and preferential treatment to individuals.

Doing something about it may take these forms:

- Focusing on the company creed and making it clear that this is binding on *all* managers.
- Having a private chat to discuss the apparent abuse and

its effect upon company operations and morale, and to hear all sides of the story.

- Making it plain that the man must clear up the abuse in his own way within a reasonable period.
- Breaking it up through some tough personnel action, if the man fails to correct the abuse.

Management must recognize, finally, that the system of recognition and reward in the organization may have something to do with abuses of fraternization. Where gaining recognition of one's performance is somewhat difficult because of the size or nature of the organization, men tend to short-circuit the system by seeking and using fraternization as a vehicle to attain recognition and reward.

A check-up of organization may disclose that the lines of communication for clearance, review, approval, or authorization are burdensome, unsound, or obsolete. Functional areas may be too rigid or fixed. Accountability of managers, and who reports to whom for what, may need clarification.

It is also wise to check periodically on what goes on in the flow of promotions and the blue-ribbon assignments—from where to where, involving whom, and to what extent. And it's worth the investment to conduct an attitude survey at the managerial and supervisory levels every three or four years to spot discontent, inequities, complaints, and abuses that may possibly be the result of excessive fraternization.

All this can be done without detracting from the gains that accrue through fraternization, group spirit, cohesion, and team effort. ♦

The Hand That Rocks the Cradle . . . ?

THE ECONOMIC POWER OF WOMEN has been greatly overestimated, A. Wilbert Zelomek asserts in his new book, *A Changing America* (New York, John Wiley and Sons, 1958). Dr. Zelomek debunks the long-standing idea that women own, operate, control, and dominate American business. "Women own 52 per cent of all common stock listed. If this gives you a picture of 56,000,000 women, each with a little bundle of stock in her name, dismiss it," he writes. "The bulk is still owned by a few wealthy women, although there are more and more middle-income women being added to the list of stockholders." Moreover, Dr. Zelomek says, owning is not controlling; women usually leave their investment decisions to men, and they prefer men as stockbrokers.

It is true that women own more than 50 per cent of the stock in some of the giants of industry, including AT&T, Dupont, and General Electric. But Dr. Zelomek points out that they do not control the companies they "own." Women are seldom found on the board of directors, and they have little voice in determining policy within the company.

—Elmer Roessner in *Business Today*

YOUR DOLLARS-AND-CENTS STAKE IN SAFETY

Condensed from Management Methods

ACCIDENT CONTROL pays off in more ways than one. Besides preventing death and injury, it can be a substantial factor in a company's profit performance. For example:

• A coast-to-coast trucking firm recently made a comeback from bankruptcy. The company's new management attributed its improved financial picture largely to the savings achieved through a safety drive.

• When a heavy-machinery producer in Milwaukee effectively reduced employee mishaps, its workmen's compensation insurance costs were slashed an average of 25 per cent.

• Near Pierre, S. D., a contractor on the $390 million Oahe Dam brought work to a closing stage with an accident rate 30 times lower than the national average for heavy construction. The saving from these accidents that didn't happen was substantial.

Every company's safety problems require individual solutions. But an analysis of the most successful accident prevention programs shows that two elements are consistently present.

One is the use of outside help. Invariably, firms with the best accident control programs utilize outside counsel to back up their own resources and personnel. Some turn to the National Safety Council, others to an industrial trade association. An excellent source of specialized, personalized safety assistance is your workmen's compensation insurance company.

Insurance carriers can't compete on the basis of the rates they charge for workmen's compensation insurance: instead, they compete in terms of service. By helping to improve the safety programs of their policyholders, they're helping themselves, too. The experienced safety engineers they provide can help to reduce accident frequency and severity rates—and, eventually, insurance costs—to a minimum.

Even in large firms that have full-time safety people, outside counselors can make a vital contribution. On the construction of the immense Grasse River Lock in the St. Lawrence Seaway system, joint effort paid off in spectacular fashion: B. Perini & Sons won a National Safety Council citation for an accident control mark that included one phenomenal seven-month period of around-the-clock work with only one disabling accident and no fatalities.

On that $27 million project, Perini utilized not only its own safety personnel but also those of its workmen's compensation insurer. The insurance company willingly worked hand-in-hand with the construction firm to analyze hazards, plan various work stages, check equipment, and

hold supervisor and worker safety meetings.

The second major element that is common to the most successful accident control programs is management's demonstrated willingness to lend an active hand. How management looks at safety determines how the employee looks at safety. If management is too busy to pay more than lip service to accident control, the workers will reflect this lax attitude.

Consider the positive example of a die casting company in Chicago. If an accident occurs, the plant superintendent is to be contacted immediately and personally, regardless of whether the mishap happens on a day or night shift. If a serious injury is involved, the president himself gets a personal report—and wheels are immediately set in motion to correct whatever condition or practice might have caused the accident. Further, it is made clear that any violation of safety regulations is cause for on-the-spot discharge.

This company regularly receives a substantial credit on its workmen's compensation premiums, production interruptions are at a minimum, and employee morale and workmanship are at a high level.

Safety requires a safe place to work, but that need not mean extra expense. Often, in fact, the firms with top accident control programs invest almost no capital to attain their goals. More important than dollars may be new housekeeping practices, careful planning of work sites, simple but previously neglected regulations, and perhaps a few minor changes in machinery. For example, one canning firm in Wisconsin found that a tremendous number of lost-time mishaps were due to falls caused by slipping on wet tile floors. After a huddle between supervisors and insurance company safety engineers, the tile was roughened by sand-blasting and floor-washing procedures were speeded up. Management also established a no-running rule and enforced it with firm disciplinary action. These and other simple improvements lowered the firm's insurance premiums—which had been well over the industry average—by one-fourth in three years.

Safety efforts should be geared for the long haul. This means, among other things, keeping adequate accident records. Only with such records can management tell, for example, that back strains suddenly have multiplied in one department or that eye injuries are a special problem in one area of the plant.

But don't overburden your company with safety records (your insurance company should be able to supply forms that will make it easy to maintain necessary, meaningful records). At one machine tool firm, it was found that the safety director had too many records, many of them not only useless, but costly. He got so bogged down recording safety statistics on paper that he didn't have enough time to promote safety among company personnel.

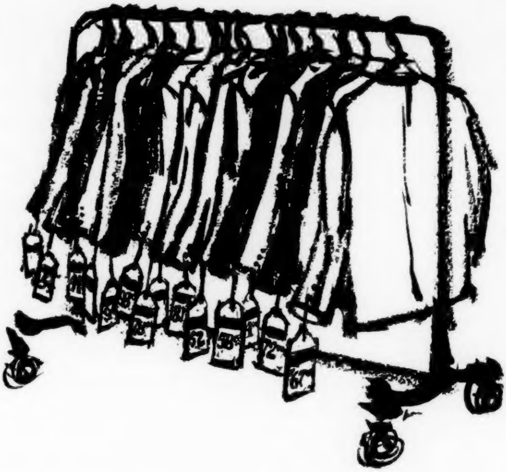
Safety records should be designed for analysis and use. Every accident report should be examined carefully, and investigations should be made promptly and thoroughly. Even minor accidents may reveal major safety hazards. One insurance company reports that it recently investigated a seemingly minor mishap in which a

sweeper's nose was scratched by a fragment of emery wheel. The investigation disclosed these startling things: a grinder motor had caught fire when someone tried to clean it with gasoline; the sweeper was cleaning up the fire debris when an emery wheel exploded because it was being operated at 18,000 rpm instead of at its rated 3,800 rpm maximum; wheel fragments flew all over the room because there was no guard; an inexperienced operator was at the grinder.

Twenty-five safety recommendations were made as a result of this one "trivial" mishap.

Pre-employment physical exams can play an effective role in reducing plant accidents. Smaller companies without their own medical facilities can use outside medical services for this purpose.

Nordberg Manufacturing Co., Milwaukee, which has 2,500 employees, operates its own clinic with a doctor and two full-time industrial nurses. Complete pre-employment physical exams are given, and the results are taken into consideration when specific work assignments are made. Rechecks on each employee's health are made periodically. The company feels that this policy contributes substantially to the annual saving of $25,000 it achieves on its workmen's compensation insurance costs. ♦



What's Keeping Prices Up?

By Benjamin Caplan and Joel B. Dirlam

Condensed from Challenge

During the past 30 years, prices have tended to be stable when business declines and to advance when business improves. The growing inflexibility of prices during business declines can be clearly seen in the comparative behavior of industrial production and prices during the last five recessions.

The decline in industrial production during the Great Depression of 1929, when there was a great drop in both production and prices, was almost twice as great (54 per cent) as the decline in industrial prices (29 per cent). During the recession of 1937-38, the ratio of the fall in production to that of prices was almost 5 to 1, as industrial production fell 33 per cent.

In the postwar period, we find an even greater inflexibility. During the 1948-49 recession, the ratio of the decline in industrial production to the decline in industrial price was 2 to 1, the same as in the Great Depression. But in the 1953-54 recession the ratio became 17 to 1, and in the 1957-58 period, 24 to 1.

It should be noted that the postwar declines in industrial production were quite significant, ranging from 10 to 13 per cent. Yet the 1948-49 recession was the last period when declines in average industrial prices were quite substantial, amounting to about 5.5 per cent. Extremely important is the fact that during the last two recessions the average decline in industrial prices has been virtually

insignificant, amounting to only .6 per cent.

This postwar behavior of prices and production is in striking contrast to that described by classical theory, which says that flexibility of prices tends to maintain production. We have seen the reverse: flexibility of production maintaining prices.

Various reasons have been advanced for this "rachet effect." Businessmen attribute the behavior of prices to the constant upward pressure of costs, principally wages; labor attributes it to the inflexible profit margins protected tacitly by accepted rules of business behavior. One important group of analysts speaks of an Age of Inflation brought about by the commitment of governments to full employment and growth, which results in a continuing pressure of excess demand. This climate facilitates the raising of prices and wages by business and labor, or, alternatively, eliminates the need for any widespread price- or wage-cutting when business declines. The feature common to all of these explanations is that they draw attention to the great changes that have taken place in our institutional environment.

In the field of manufacturing, prices are predominantly "administered"—made by individual sellers as a matter of conscious policy. Furthermore, the price decisions made at the manufacturing level tend to carry through to the wholesale and retail levels, where customary markups are added to arrive at the sale prices. Thus, where sellers were formerly price-takers, today most sellers are price-makers.

The fact that prices are administered does not lead to the inevitable conclusion that businessmen necessarily alter prices only upward. Many of the forces that might be expected to influence individual price-makers —competition of similar products, the pressure of public opinion, possibility of elasticity in the long-term demand, opportunities for technological improvements in production—would seem to have a downward bias. In logic, prices could as easily move down as up; in reality, they have not.

The question, then, is: If most industrial prices are administered, how are they administered? Furthermore, what is the relationship between price administration and price inflexibility?

The determinants of price-making can be illustrated from several industries that cooperated in a recent Brookings Institution survey. General Motors states that it first plans the features of a new automobile, estimates the minimum possible cost at which it can be produced (assuming production at 80 per cent of capacity), and adds a profit of 15 to 20 per cent on the investment.

U.S. Steel similarly explains its pricing in terms of what it calls "a hard-boiled application of standard costs in pricing individual products."

International Harvester makes more elaborate cost calculations than U.S. Steel and General Motors. It compares normal costs, based on an estimated utilization of capacity projected from the experience of past years, with the company's experience each year at the close of the manufacturing season. It then sets a profit rate that it would like to earn, but this differs from machine to machine.

It would be tempting to say that the increasing reliance on standard costs and on a fair or standard profit serves to explain the decreasing response of price to production declines. Yet the large corporations point out that they cannot always attain their pricing goals. New products, style changes introduced by competitors, imports, shifts in technology and in public favor, and conservatism all influence final price. Thus, Esso told Brookings that "the normal price structure rarely obtains."

Nevertheless, the domination of pricing by large corporations, and their greater reliance on computations of standard or ideal costs plus a target profit, have contributed to maintaining prices in recession, particularly in view of the upward and frequently automatic push of wage rates.

Once an industry has set itself the goal of covering a standard cost, it feels justified in upping prices in proportion to increases in direct costs, regardless of profits. Thus, after the wage adjustment of July 1, 1958, which raised steel companies' costs four dollars a ton, the industry lifted prices an equivalent amount, despite an idle capacity rate of 50 per cent.

There is, however, another side to the coin. Adherence to a standard-cost policy implies that, in periods of rising demand, prices will move up mainly in response to cost increases. Thus, business does not seek all that the traffic will bear in a boom, and price increases are smaller than they would be if prices were completely flexible.

Businessmen regard a reasonable profit level not simply as the end result of competition in a free-enterprise society but as something to which they are ethically entitled; they justify high profit rates as necessary to provide funds for replacement or expansion. They are, however, conscious that extremely high profits encourage competition, stimulate demands of labor for wage increases, and rouse the cry from the public and Congress that profits are responsible for price increases.

It should be emphasized that the standard-cost policy has not been put to a very severe test. In the postwar period, the drops in industrial production have been between 10 and 13 per cent, and the decline in the whole economy has been less than 5 per cent. Furthermore, the recessions have not been prolonged. What would happen if we encountered much more severe declines in business? Would business then find itself compelled to abandon its standard-cost policy in favor of a more flexible one? The answer will have to await a real test, which we must hope will never come. ♦

HOW MANY DAYS does the average American spend away from the job because of injuries and illness? According to the U. S. Public Health Service, 3.4 billion working days—or 20 days for each American—were lost during the year ending June 30, 1958.

—*Newsweek* 12/1/58

Advertising agencies are getting into more and more fields as they broaden the scope of their services . . .

An Ad Man's Work Is Never Done

By William Clabby and Daniel Burnham

Condensed from The Wall Street Journal

RECENTLY, a well-dressed executive hopped aboard a bread truck in Tyler, Tex., and made the rounds of numerous grocery stores, observing the driver and occasionally rearranging a bakery goods display. Curious supermarket shoppers probably concluded that the executive was a sales manager breaking in a new route man. Actually, he was William Finn, an advertising agency president who left his comfortable Tyler office to try to discover what was behind the slumping sales of a client's hot-dog buns.

Mr. Finn's tour on the bread truck points up a fast-growing trend in the ad agency business. Agencies—once largely confined to the job of creating and placing clients' advertising—are plunging ever more heavily into such services as marketing research, package design, public relations counseling, and even into management consultant and plant location work.

This trend stems primarily from advertisers' needs for improved research and marketing techniques to boost sales and profits. Squeezed by rising ad costs and stiffening competition, advertisers in recent years often have demanded more research and marketing services as part of the traditional 15 per cent commission paid to ad agencies. But a growing number of advertisers now are paying for agencies' expanded services on a separate-fee basis, a compensation system that has encouraged more agencies to add these services.

"We're offering more services today than we ever have and each day we're being asked to perform more that are further removed from advertising," says J. D. Danforth, executive vice president of New York's big Batten, Barton, Durstine & Osborn, Inc. "Just the other day we were called on by one client to help find a sales manager. Nobody would have dreamed of doing that a few years back."

"It's getting so we do everything but baby-sit," comments Alan R. McGinnis, chairman and treasurer of Klau-Van Pietersom-Dunlap, Inc., a Milwaukee advertising agency. One of this agency's non-advertising services is the handling of all the details of a client's sales meeting, complete to dining and housing arrangements. "We'll organize the whole thing, even write all the speeches," say Mr. McGinnis.

The ultimate aim of all this diversification, of course, is to increase the effectiveness of industry's advertising barrage. The American consumer, according to one ad agency statistician, already is on the receiving end of some 225 different ad messages daily—and the number is rising. Advertising spending in the U.S. last

year came to an estimated $10 billion, more than double the $4.8 billion of ten years ago.

To improve their clients' chances in the market place, ad agencies are leaning heavily on accelerated research activities.

"We're spending more on research than ever before," reports John Coulson, research director of Leo Burnett Co., a large Chicago-based ad agency. "With advertising costs the way they are today, clients are demanding we document our findings more thoroughly. They want us to have had some kind of experience before they commit themselves on any big new program," he explains. Burnett's research department now employs more than 50 persons, double the number four years ago.

Quaker Oats Co. is an example of a company that is demanding more services from advertising agencies than it did just a few years ago. According to Victor Elting, vice president of advertising for the Chicago food company, "We are bringing more and more pressure on our agencies to provide a greater contribution to the total marketing field. We are insisting on more research." He points out that Quaker involves its ad agencies in its marketing problems "from the conception of a product to the inside-store strategy which is used by the retailer."

In tackling a client's marketing problem recently, one advertising agency found itself involved in plant location. The problem was the slipping sales of the client's food products in an important marketing area where, it also happened, the company had a plant. Interviews with consumers in the area convinced the agency that many people associated the company's products with its unkempt plant, which was difficult to keep clean because it was on a railroad track. The agency accordingly suggested to the client that he sell his plant and build a new one on the edge of town where attractive landscaping could be used. The client took the suggestion and sales subsequently picked up.

An increasing number of ad agency executives nowadays are aiding clients in redesigning product packages and testing them in the field. For example, it was a new hot-dog bun package that put Mr. Finn, the Tyler, Tex., agency president, on the bread truck recently.

Mr. Finn and a bakery client had worked together on a bun package which featured a cellophane-covered "open" side to display the contents. At first, sales failed to show any marked upturn—and in some spots volume actually dipped. After his tour of the supermarkets, Mr. Finn decided it simply was a matter of improper stacking. All the bun packages were being stacked with the open side facing the front. "We wanted the buyer to see the buns, all right, but this way, the bakery's name was hidden," he explains. The solution was to turn some of the packages so that every other layer displayed the baker's name.

One of the stickiest of the problems facing the agencies is at what point to begin charging a client for extra services. Some advertisers, for example, may insist that a marketing survey is needed if an ad agency is to do an effective job on a big new

campaign. So, they reason, the costs of the survey should be charged off against the 15 per cent commission which agencies receive for their services. But many ad agency executives claim that their profit margins are too slim to withstand the cost of added services, and they argue that they should be paid separate fees for work that goes beyond the traditional boundaries of advertising.

A growing number of ad agencies lately have been promoting the merits of separate fees. Kenyon & Eckhardt's President Lewis, for instance, reminds his colleagues not to forget "that business is accustomed to paying rather large fees for management counseling." And Emil Mogul, head of a New York ad agency bearing his name, urges that the traditional 15 per cent system be made "more a point of departure than a finite definition of agency income."

Adds Mr. Mogul, "Like most other agencies who render full-scale modern advertising and marketing services, we have frequently found that 15 per cent gross, even on million dollar budgets, is just not enough to cover costs and to yield a reasonable profit."

Mr. Mogul estimates that one-third of his gross revenue is payment for services other than the creation and placement of ads. This, he says, is double the amount three years ago. His agency uses several compensation systems with its clients. One is a straight fee, another is the 15 per cent commission plus supplementary fees for special work, and a third is a straight percentage of the sales of a client.

As an example of an advertiser that pays an ad agency on the basis of sales, Mr. Mogul points to Rayco Manufacturing Co., a Paterson, N. J., maker of automobile seat covers. He reports that Rayco's 1958 sales ran about $1.5 million higher than those of the year before, although the company spent $100,000 less for advertising. "But instead of being penalized for having done a good job and having reduced the advertising-sales ratio, we have benefited because our income is based on sales results instead of on how much or how little we spend to achieve them," says Mr. Mogul. ♦

Keeping Up Down Under

AUSTRALIA will be the scene of an international meeting of many of the world's business leaders next year, as the twelfth triennial Congress of the International Committee for Scientific Organization meets from February 22 to March 4, 1960. The meeting, sponsored by this world organization that works for the advancement of the art and science of management, will attract delegates from more than 20 companies to discuss management's methods in the decade ahead, dealing with subjects like new techniques to improve productivity, long-range planning, and marketing. In addition, delegates' wives will be invited to attend special sessions devoted to aspects of management of particular interest to women —such as ways in which a wife can help her husband combat the strains of modern business.

MANAGEMENT PUTS THE ECONOMIST TO WORK

By Clark S. Teitsworth

Condensed from Harvard Business Review

IT WAS NOT so many years ago that the economist in industry was widely regarded as a newfangled, if not downright superflous, management tool. Oftentimes, he was true to the cliché—an ivory-towerist who was so absorbed in "classical" theory that he had little time to develop an analytical understanding of the storms in the current business climate. Broadly speaking, he was not able to help the businessman adjust to what *had* happened to the economy, to give him an adequate explanation of what *was* happening, or to forecast what was *going* to happen. The company that hired such a man was quite frequently moved to ask itself just why it had done so.

Since about 1940, however, the practice of economics in business has emerged from its infancy, and every year it advances a few steps further along the road to a respectable maturity. More significant still, management has begun to learn that competent, objective economic counsel can play a vital role in the performance of its function.

The economist is constantly sharpening his fact-finding tools. In an increasingly complex and competitive world he has developed ever more reliable measures for producing such indexes as gross national product, business investment, private income, corporate earnings, consumer demand and consumer purchasing power, retail sales, and housing starts. This kind of data is being made available with greater swiftness, so that specialists who are trained in economic analysis and can sift and interpret the pertinent facts are becoming as useful to business as accountants and lawyers.

None of this means that we have achieved perfection in the production of economic data. As one economist put it recently, "In economics, nothing is certain, anything is possible, and everything depends on everything else." And, he might have added, economists do not necessarily agree on what their data mean. Nevertheless, there is a heartening tendency on the part of businessmen to be more patient with the deficiencies of economics as a science, and to remember that even the exact sciences are not without their weaknesses.

The economist was slow enough in proving himself to industry, but now that he has done it, his popularity is rising fast. In 1950, a survey of 1,000 companies conducted by the National Industrial Conference Board revealed that only one out of ten firms employed full-time economists, while one out of four assigned an executive—not an economist—to keep up with economic developments on a part-time basis. A goodly number depended wholly upon somewhat fragmentary economic reports sent by their trade associations, and only a small minority saw any reason for retaining professional economic counsel.

The situation in 1958, according to a survey undertaken at Socony Mobil Oil Company, Inc., presented a striking contrast. The figures showed that a much higher proportion of businessmen look to economists to provide them with economic data and interpretations as an aid to planning profitable operations.

To summarize the results of the survey:

Of the 309 top companies that made up the cross section of American industry covered in the Socony Mobil survey, 94 (30.4 per cent) reported that they employed one or more staff economists, and an additional 61 (19.7 per cent) said that they used outside economic counsel. In other words, half—155 companies—reported that they made some use of this kind of help.

But, at the same time, the other half of the respondents—154 companies—declared they had no need at all for either staff economists or outside counsel, indicating that, while resistance to the economist is not what it used to be, it is still strong.

The greater attention paid by industry to the analysis of business and economic data is indicated by the number of economists working in business today and yesterday. The 94 companies with economics staffs employ a total of 335 economists, compared to 145 in 1948, and only 62 in 1940. The study shows that 25 of these firms employ one economist, 14 employ two, 13 employ three, with the others finding a place in their organizations for four or more. Nine companies reported having a staff of over ten economists.

Nearly two-thirds of the 94 companies using staff economists believe that the influence of their economists on management decisions has grown measurably over the years. The reason cited most often was a growing confidence in the economist's ability to forecast business conditions on long- and short-term bases.

Further evidence of management's recognition of the value of the business economist is that ten of the companies in the Socony Mobil survey have appointed economists to their

boards of directors, and 21 have put economists on their capital budget committees.

Just as significant in the long run, 20 companies believe that the economics department is a good place to train young executives:

"Training and experience in the field of economics," one company reported, "provide an excellent background for management positions. We have no formal plan to train executives in the economist's office, but we agree that management material is to be found there." Another company said four plant managers and one production manager were former members of the economics department.

The Socony Mobil survey indicates that the role of the company economist as an adviser is constantly expanding. Of the companies studied, 48 use their staff economists in reviewing investment opportunities; 66 get assistance from their economics departments in the preparation of briefs for court cases and appearances before state and federal legislative committees; 56 seek their counsel in drawing up the annual report, as well as for many other communications to shareholders; 62 routinely get help from their economists in the writing of management's speeches; and 22 firms ask for the recommendations of their economics departments on relations with labor unions.

In varying degree, most of the companies also use staff economists in an advisory capacity on such matters as pension funds, production scheduling, equipment replacement, plant capacity projections, new plant locations, prices, distribution costs, wages, product development, proposals for diversification and technological advances influencing the company's operations, and the impact of national defense needs on the economy.

If there is a single activity common to all the company economists surveyed by Socony Mobil, it is forecasting long- and short-term trends in the national economy and relating them to sales and profits. These forecasts are of inestimable value to management in drawing a blueprint for sales objectives, inventories, purchases, production, and capital expenditures for major expansion or relocation programs five, ten, fifteen, and twenty years ahead.

But while economists as a group cannot be accused of lacking ingenuity and resourcefulness in making the most of forecasting data, they are plagued by certain perennial problems which sometimes cause them (as well as operating executives) to throw up their hands in despair.

One such problem is the question of what theory to follow, what assumptions to use. The choice of a school of thought can make quite a difference in one's conclusions about the future.

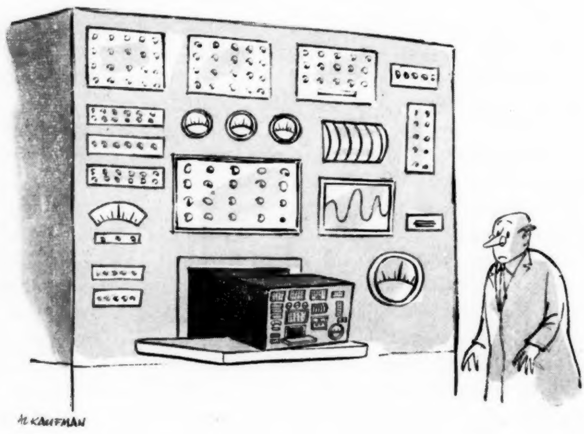
Another problem is the uncertainty of events—such unpredictable factors as labor strikes, which can upset calculations for the industry directly concerned and possibly for the entire economy.

A third problem haunting economists is what to make of some published figures. Various types of economic data can be dangerously misunderstood unless additional factors are considered simultaneously.

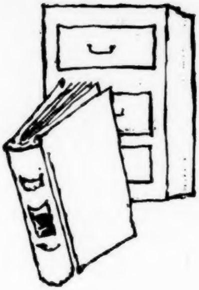
Economists would be the first to agree, therefore, that forecasts are at best "estimates of the probabilities" and can never be determined with slide-rule accuracy. What about management? Is it satisfied with the results? The overwhelming majority of companies with staff economists surveyed by Socony Mobil found their forecasts helpful. And they agreed that this was an area in which economists would continue to improve.

Should the chief economist of a company be an officer? A close examination of the responses to the Socony Mobil survey indicates that the question is not too important. One individual might find his ceiling as a department manager, while another might rise through all the levels in the company to become the chief executive.

What is important to the corporation is organized attention to forward planning by the best talent available. In this age of specialization, the economist ideally specializes in trying to see the whole picture. In a business sense, he might almost be said to specialize in not specializing. No matter who makes the final decisions, forward planning must be based on organizing and analyzing the facts and the trends relating to the company, the industry, the general economy—right up to the edge of the always-misty future. They should be gathered with objectivity as well as understanding, and related to each other without fear or favor. The individual charged with that responsibility may not always win his point, but he must command the respect of management. ♦



SETTING UP A RECORDS RETENTION PROGRAM



By Ida Welch

Condensed from American Business

As complex business organizations find themselves inundated by a growing Niagara of records of all kinds, they face a mounting problem: how to decide which records to keep and which to throw out. Establishment of a cut-and-dried retention schedule is no longer sufficient. Changes in procedure are constantly affecting the value of records, and original decisions as to what to retain or destroy must be reconsidered as new developments take place.

Responsibility for making record retention decisions should not be assigned lightly. Perhaps the most effective approach for a large company is a system of committees at different management levels. This method allows high-level management to concentrate on basic policies without having to spend time on details.

A high-level policy-making committee should consist of the executive officer responsible for records, legal counsel, tax counsel, and the controller. They should consider such basic matters as:

1. Records required to keep the company in business.
2. Records required by government agencies.
3. Possibilities of lawsuits and tax suits, and the types of records required for defense.
4. Policy on personnel records retention.
5. Long-range historical needs.
6. Ratio of dollar-cost or retention to dollar-risk.
7. Survival policies.

Rather than establish detailed rules, the committee should issue policy instructions on which decisions can be made by competent personnel.

A secondary committee might establish retention schedules for records relating to the assets and liabilities of the company. This committee should consist of the records-control manager, department heads, and a top-level accountant. Its goal should be the building of better records with less paper.

The records-control manager can give the committee the facts regarding volume, frequency of reference, past practices, and cost of maintaining the present record system. The accountant can examine the control of

paper work and property, and determine what records are required to support other accounting records. If a particular record is part of an involved system, flow charts showing the interrelation of the records can be helpful.

Retention schedules for records that have no relation to assets and liabilities of the company can be set up by the head of the operating department involved and the records-control manager.

What kinds of company records should be kept? Here are some that are essential to a company's security:

Proof of transactions. Records of this type should be saved. They include: proof of the receipt of money; proof of the payment of money; proof of the ownership of property; proof of purchase or expenses properly incurred.

Proof of assets and liabilities. What would happen if property of the company were destroyed by fire, flood, explosion, or bombing? Where in the records is proof that the property actually existed, and proof of ownership? Where is proof of the current value of the inventories, machinery, and buildings? Will the basic proof stand alone, or must it be supported by original data? The records that answer these questions should be singled out. If necessary, a trial run to reconstruct values of property should be made, and the advice and assistance of competent insurance counsel secured. Insurance is recovered on proof, not conjecture.

Proof of individual responsibility. Such proof may be needed to assure auditors, stockholders, and directors that assets and liabilities as set forth in the balance sheet are correct. Or, that expenditures are properly offset by receipts, and distributed to departments originally authorizing the charges. Records may be needed to prove that the payroll is accurate or to prove who completed a certain transaction.

Proof of prior usage. Engineering and research files should be set up so that, as filing takes place, papers of temporary value are separated from those of permanent value. The permanent file should support the doctrine of "prior usage" necessary to establish patent claims.

Every piece of paper—sketch, note, letter, and drawing—should be dated. This is valuable for ordinary reference, but particularly if the company becomes involved in infringement or other patent suit claims. Generally, only engineering drawings that are coded and numbered are preserved, but the factual data created before the drawing is formalized are important enough to be considered by the records-retention group.

Statistical information. Records built up for the collection and manufacture of data are the big-volume records. Such statistics as territorial records of sales, distribution of advertising, cost accounts, and supply inventories are developed to provide information for decisions.

It might be desirable to put a little extra work into condensing the information on these papers and destroying them, rather than keeping them to produce other possible forms. If the method of producing the analysis is carefully recorded, the original records will have little further value.

However, take a long look at source records that can be used for statistics before you destroy them—such as sales orders, freight bills, invoices, and production reports. Squeeze out all information that may be valuable for future decision-making. It may be worthwhile to use outside tabulating services to summarize such data; the cost can be nominal.

History. Historical information falls into two categories: the business history, which may be useful in establishing future policies and long-range plans, and the sentimental history of a company.

The books, records, and reports, of course, prove what has been accomplished and are important business history. Minute books provide records of decisions made. However, one important phase of business history is neglected in most organizations, and that is the record of *why* certain decision were made.

With today's efficient dictating and transcribing machines, executives on the decision-making level should summarize the reasons for important decisions which affect sales policies, price changes, personnel relations, and accounting practices. A schedule should be set up for removing these reports from the routine files and placing them in historical files where they can be found ten, twenty, or thirty years from now.

Duplications. A duplicate form is not necessarily a duplicate record. Take the example of work orders issued by a maintenance department. The original copy goes to the accounting department, where it is processed and filed by work-order number. The second copy is filed by building name, and becomes part of the maintenance history of the building. The second copy also represents a cross reference from the building name to the costs accumulated on the work orders. Both files are necessary and useful enough to warrant the cost of keeping them. ♦

Handicapped Workers Prove Their Worth

AN OVERWHELMING MAJORITY of the more than 1,000 physically handicapped employees of E. I. du Pont de Nemours Co. have achieved average or better than average levels of job performance, safety, and attendance, according to a company-wide study recently completed. Moreover, the survey indicates that the severity of a handicap does not prevent the employee from doing a good job: some of the best performers have the most severe handicaps—amputation, blindness, deafness, and paraplegia.

The safety records of the handicapped group disclose that 39 per cent were better than average, 59 per cent average, and only 2 per cent below average. In attendance, 36 per cent were better than average, half were average, and 14 per cent were below average. In job performance, 27 per cent were above average, 60 per cent average, and only 13 per cent below the norm.

—*Manage* 12/58

New Products: Profit Bait for '59

NEW PRODUCTS are figuring in the plans of more and more companies striving for higher profit margins, corporate growth, and mere survival, a recent survey by *Dun's Review and Modern Industry* shows.

A random sample of 629 companies in all 20 of the manufacturing categories of the Department of Commerce Standard Industrial Classification shows these companies have increased the number of products they manufacture by nearly one-third in the past five years. And this year they plan to increase them by approximately 5 per cent. A quarter of the companies put out new products in the past five years; a fifth of them will do so in 1959.

There are sound reasons for this increased emphasis on new-product development. One recent analysis by the management consultant firm of Booz, Allen and Hamilton has pointed out that, in general, companies need to maintain a steady flow of peak-profit additions to the product line. For as established products reach their maximum sales volume, profitability begins to drop off as a result of increased competition, reduction in share of the market despite increased volume, saturation of the market, and similar conditions. Thus, the "growth" industries—drugs, chemicals, electrical machinery, and electronics—have been heavily oriented toward new products, this study points out.

The companies surveyed by *Dun's Review* were asked to list only new products—not style or model changes. The total number of products in the line, in some cases, remained the same, although new products were added. For example, one housewares manufacturer, who put out 25 products in 1953 and 25 in 1958, points out that almost all of the original 25 are now obsolete and have since been replaced with new products.

The survey shows that 159 of the 629 companies were responsible for all of the 1,275 new products put on the market in the past five years—an average of more than eight new products per company. In 1959, 128 of the companies will put out a total of 355 new products. A few say they have new products in the works but are unable or unwilling at present to tell how many will be put on the market this year.

Indicative of the accelerated development of new products is the survey finding that nearly half of those who are expanding their lines this year have made no changes in the past five years or have previously marketed fewer items.

Here are the industries which have introduced the greatest proportion of new products in the past five years and will do so in the coming year:

- Professional, scientific, and controlling instruments; photographic and optical goods; watches and clocks.
- Transportation equipment.
- Electrical machinery, equipment and supplies.
- Machinery other than electrical.
- Chemical and allied products.
- Rubber products.

—Alfred G. Larke in *Dun's Review and Modern Industry* 1/59

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BRIEF SUMMARIES

of other timely articles

GENERAL

THE MANAGERIAL MIND. By Charles E. Summer, Jr. *Harvard Business Review* (Soldiers Field, Boston 63, Mass.), January-February, 1959. Reprints $1.00. Is the thinking of business executives recognized in terms of well-defined qualities and attitudes, as is the thinking of scientists, lawyers, and other professional men? The answer is no, says the author, who in this discussion of the characteristic intellectual qualities of the effective manager maintains that a better understanding of these qualities would stimulate business education and management training and contribute to the stature of management as a profession.

ODD BUSINESS, THIS INDUSTRIAL DESIGN. By Seymour Freedgood. *Fortune* (9 Rockefeller Plaza, New York 20, N.Y.), February, 1959. $1.25. Industrial design has developed from somewhat flamboyant beginnings into a more businesslike operation that offers "total service," which can include anything from the redesign of a product to the redesign of the corporation that makes it, reports the author. He gives the results of a survey of 180 industrial design firms and 120 corporations that indicates increased concentration on package design and market research by "total service" designers, but also reveals that some designers are abandoning the "total service" concept because a number of large corporations have set up their own industrial design departments and want outside designers to play the role of consultant.

SOME LIMITATIONS ON OPERATIONS RESEARCH. By George S. Odiorne. *Michigan Business Review* (University of Michigan, Ann Arbor, Mich.), January, 1959. Gratis. Although operations research has fruitful applications in certain physical areas of business activity, it has serious limitations as a tool of general management in areas involving the human factor, maintains the author. Arguing that such techniques as probability sampling, game theory, and linear programing fail to take into consideration the wide variability of individual motivation and action, he recommends caution on the part of the executive who is enticed by the idea of relying entirely on mathematical methods of management.

I'VE GOT A SECRET—OR HAVE I? By Ted Cox. *Management Methods* (22 West Putnam Avenue, Greenwich, Conn.), February, 1959. 75 cents. Pointing out that many company secrets aren't secrets at all, the author maintains that companies often defeat themselves by trying to conceal facts from their competitors, their employees, or the public. He cites concrete examples of company experience to back up his

belief that executives should ask themselves if the information in question is really a secret, and if not, in what way they might effectively use the information to the company's advantage by making it public, officially.

INDUSTRY REDISCOVERS THE RIVER. By Joseph R. Hartley. *Business Horizons* (Indiana University, Bloomington, Ind.), Winter, 1958-59. Reprint prices on request. River transportation is enjoying a boom, says the author, reporting that since 1950 about $13 billion has been invested in plant and equipment along the Ohio River alone. Pointing out that diesel-powered towboats make river transportation both rapid and economical and that the availability of cheap electric power has attracted many plants to river sites, he discusses the importance of rivers in U.S. industry since the days of the steamboat and predicts an even more prominent role for them in the future.

EIGHT KEYS TO CREATIVITY. By Louis Cassels. *Nation's Business* (1615 H Street, N.W., Washington 6, D.C.), February, 1959. Reprints 10 cents. Recent research at Pennsylvania State University and elsewhere has indicated that eight distinct attributes significantly differentiate the creative from the noncreative individual: sensitivity, fluency, flexibility, originality, skill at redefinition, ability to abstract, ability to synthesize, and coherence of organization. Although the tests that have been developed to measure these attributes are not as yet available to businessmen, the author believes that any manager can heighten his own creativity by conscientiously cultivating the eight qualities.

THE STARTLING IMPACT OF PRIVATE PENSION FUNDS. *Business Week* (330 West 42 Street, New York 36, N.Y.), January 31, 1959. Single reprints gratis. Private pension funds are skyrocketing, with employers contributing 84 per cent of the $4.5 billion cost per year, according to this special report, which predicts that the concept of "portable pensions"—the practice of permitting workers to carry their private pension rights from one employer to another—will spread. Pointing out that private pensions are no longer viewed as gifts from employers, but rather as deferred wages, this article traces the development of the private pension plan, taking the measure of its new force in the economy and discussing the significant implications for the American businessman. Charts.

POLICY REVIEW BRINGS 3-WAY GAIN. *Nation's Business* (1615 H Street, N.W., Washington 6, D.C.,), December, 1958. Reprints, 10 cents. The rapid changes in business that are forecast for the next few months will necessitate a review of policies in many companies. This article describes ten key steps that should be taken before a company makes a change in any important policy or procedure—among them: study the history of the policy or procedure; reduce any proposed change to words; compare it with similar practices in other companies; check it against the organization charts.

OFFICE

PROCEDURE PROCESS CHARTING. By E. Noah Gould. *Office Executive* (1927 Old York Road, Willow Grove, Pa.), February, 1959. 50 cents. The paperwork charting method outlined in this article uses symbols to represent written descriptions of procedures, a device which the author credits as a substantial time-saver in the writing of procedures and in preparing paper work for automation at the Army's Watervliet Arsenal in Watervliet, N.Y. A table of the symbols and their definitions is presented here, together with detailed

instructions on how to use the method, which the author considers adaptable to paper work in any type of business.

HOW TO CREATE AND MAINTAIN A MANUAL TO KEEP GOOD SYSTEMS INTACT. By Walter S. Athearn. *American Business* (4660 Ravenswood Avenue, Chicago 40, Ill.), January, 1959. 50 cents. A carefully conceived and written procedure manual can be an invaluable aid in keeping a systems change in effect. says the author, suggesting that such a manual should clearly spell out the responsibilities of each group working within the new system. In this guide to putting out a procedure manual he includes advice on: (1) what to include and what to leave out; (2) the number of manuals necessary; (3) design of the procedure sheet; (4) indexing; (5) binding; and (6) distribution procedures.

HOW TO CUT OFFICE COSTS WITH PERFORMANCE STANDARDS. By Herman Limberg. *Management Methods* (22 West Putnam Avenue, Greenwich, Conn.), February, 1959. 75 cents. The goal is to cut office costs and keep them in line, the method is to measure clerical work and set performance standards, and the results are more output, better planning and cost control, and improved morale, declares the author, who maintains that the office standards program outlined in this article can be implemented with the help of the employees themselves. Illustrated with sample forms.

PRODUCTION

1959 PRODUCTION PREVIEW. *American Machinist* (330 West 42 Street, New York 36, N.Y.), January 26, 1959. $1.00. This review contains capsule descriptions of all new machines, equipment, materials, and parts described in *American Machinist* during 1958, under these categories: metal-cutting machines, tools and accessories, metal forming and casting, welding and assembly, heating and heat treating, cleaning and finishing, inspection and layout, plant service equipment, and parts and materials. The manufacturer of each item is listed and the date of the issue containing a more complete decription is included for those who want additional information on any product. Illustrated.

HERE'S HOW YOU CAN HIT WASTE IN MAINTENANCE STORES. By T. R. Wolf. *Factory Management and Maintenance* (330 West 42 Street, New York 36, N.Y.), December, 1958. $1.00. There's real gold tucked away in the maintenance store room, the author declares, in two places: either money that is sunk in poorly managed, excessive inventory, or money wasted in manhours—production and maintenance—because of inefficient storeroom facilities. Maintaining that he has yet to find a maintenance store room where economies from 10 per cent to over 50 per cent weren't possible, he goes on to present a comprehensive review of money-saving possibilities in these two key cost areas.

MARKETING

THE AD AGENCY OF THE FUTURE: SERVICES WILL BRING GROWTH AND STABILITY. *Printers' Ink* (635 Madison Avenue, New York 22, N.Y.), December 26, 1958. 25 cents. This survey of prominent national advertisers and ad agencies indicates that the dominant trend in advertising during the coming decade will be toward increased agency responsibility in the marketing field, as

agencies offer more and more services in market research, product and package design, promotion literature, and media selection—all of which will contribute to agency growth and stabilization. Other changes predicted are increased fees over and above the usual 15 per cent commission, more competition from management consultants in the area of marketing, and a more creative approach in tomorrow's agency. Charts.

INTEGRATED MARKETING: THE CUSTOMER KNOWS BEST. By Louis A. Allen. *Dun's Review and Modern Industry* (99 Church Street, New York 8, N.Y.), January, 1959. 75 cents. The "ask the man who buys it" approach has put the marketing function in new perspective, according to this article, which discusses the ways in which some companies are using the new marketing concept to improve their products and increase their sales. Providing a check-list for executives, the article emphasizes that customer-oriented marketing must be properly organized and integrated with other company functions to operate effectively.

THE FUTURE POPULATION MIX. By Daniel Seligman and Lawrence A. Mayer, *Fortune* (9 Rockefeller Plaza, New York 20, N.Y.), February, 1959. $1.25. The decade into which we are moving will be dominated by teen-agers, according to this appraisal of U.S. population trends and their meaning to marketing. Reporting that the 15-19 age bracket will increase by almost 63 per cent between now and 1970, the authors stress the importance of teen-agers as consumers, predict buying trends among other age groups, and discuss the advantages and drawbacks of having 30 million more people by the end of the next decade. Charts and graphs.

FINANCE

ELEVENTH ANNUAL REPORT ON AMERICAN INDUSTRY. *Forbes* (70 Fifth Avenue, New York 11, N.Y.), January 1, 1959. $1.00. Intended as a guide for investors, this special issue rates the management abilities of 223 leading companies in major U.S. industries. Numerical ratings are accompanied by discussion of the companies' problems and accomplishments and by charts comparing companies' performance in terms of profitability, growth, degree of dilution, stability, and use of plowback.

FRINGE BENEFITS PROGRAMS. By Matthew F. Blake. *Taxes* (4025 West Peterson Avenue, Chicago 46, Ill.), December, 1958. 75 cents. The author discusses factors to be taken into account by management when planning a program of fringe benefits, the most important one being the tax advantages available to both employer and employee. He presents a detailed discussion of benefits such as medical insurance, group life insurance, split-premium and key-man life insurance, pension and profit-sharing plans, savings plans, stock options, and referred compensation contracts in terms of the tax advantages for companies of varying size and type and the particular needs of groups in specific age and salary brackets.

COMMON STOCKS AND PENSION FUND INVESTING. By Paul L. Howell. *Harvard Business Review* (Soldiers Field, Boston 63, Mass.), November-December, 1958. Reprints $1.00. Based on a detailed examination of past performances in pension fund investing, this article argues the case for the common stock as the cornerstone of a dynamic pension fund portfolio. The author maintains that the expectation of a 6 per cent annual return from pension investments is no longer "revolutionary," as it was once held, but is perfectly reasonable and attainable.

The Company Personality

(*Continued from page* 8)

pany's personality, but none of them can lead to a permanent definition, simply because company personalities keep changing. As economic pressures from without and the organizational relationships within are altered, the company personality adjusts to them with shifts of attitude. To be of any value, analyses of this kind should be repeated periodically—every three or four years—lest they become obsolete.

ANALYZING THE COMPANY PERSONALITY

Generally speaking, there are five steps to analyzing the company personality:

1. Identify the company's pacesetters—the men whose attitudes count.
2. Define their goals, tactics, and blindspots.
3. Define the economic challenges facing the company.
4. Review the company's history, particularly in terms of the careers of its leaders.
5. Integrate the total picture—which, in this case, means extracting the common denominators rather than adding up all the parts to get a sum.

Identifying the Pacesetters

This is not so easy as it sounds, because the real pacesetters are not necessarily in nominal command. A company pacesetter is defined by the reactions of other people to his ideas, rather than by his position in the company.

People seek out pacesetters to ask their opinions, and these opinions are seldom questioned—except by other pacesetters. The working habits of a pacesetter are unconsciously copied by others in the company, sometimes to the point where they become standardized. In time, the pacesetters are surrounded by "disciples"—usually rising young men who hitch their personal fortunes in the company to the pacesetter's star. People whose views are incompatible with those of these key men tend to lose influence or to leave the company. The pacesetters are exponents of the points of view that survive.

Even in a large company, there are rarely more than a few real pacesetters. Therefore, the analysis of a company personality begins with a search for a few men rather than a mass survey of every executive on the payroll.

Goals, Tactics, and Blind Spots

This is the most important—and most difficult—step in the process. The temperament of the pacesetters should be assayed through both direct observation of their behavior and a review of their records.

There are two key questions here. The first concerns the pacesetter's self-image, or the way he thinks about his role in the company. Does he see himself as a trail-blazer, or a juggler with a dozen decisions in the air at any given moment, or a guardian of the stockholder's money—or what? The second important consideration is his underlying motives: What is he after personally? Does he want to insure his future security, to become prominent, to accumulate wealth, to wield power, or to have people like him? Usually several motives are present, some more strongly than others, and the predominant ones can have a powerful influence on the company personality.

The answers to questions like these will usually reveal underlying patterns of consistency. In the last analysis, the way in which the pacesetters think about the company bears a definite, traceable relationship to the way in which they think about themselves.

For example, a chain of television stations was operated by a spirited nonconformist whose chief delight was to match wits with anyone from a chess opponent to a bigger, better-equipped competitor. All his stations got off to slow starts, largely because they were located in cities where other stations were already established. Some friends of the entrepreneur suspected that he made a deliberate practice of starting out in a location where the cards were stacked against him.

But as he gathered a line-up of managerial talent for his stations, they gradually won local favor and prospered. In defining what he looked for in a potential executive, the owner once said, "I want a disciplined screwball—the kind of guy who was probably thrown out of a college for putting a cow in the dean's office, and who has

lost none of his drive since then, but who has merely grown up a little in the meantime."

Economic Challenges

As far as the company personality is concerned, the actual economic problems that it is objectively faced with are not nearly so important as the pacesetter's *perceptions* of these problems. An impartial economist and the company's pacesetters will not necessarily agree on a definition of the company's markets, competition, opportunities, or resources. Whether the company's strategies turn out to be realistic or quixotic will depend, of course, on how accurately the pacesetters have estimated the situation.

Moreover, there is seldom one best method of meeting a situation, and the perceptions of the pacesetters—the way they react to a problem or an opportunity—will set the tone for the entire organization. Two companies will frequently react in entirely different ways to the same challenge—and each may well be successful in its chosen way.

It is also important to remember that the personality of the company is determined by what action it takes, not by what its representatives may declare to be its policy. The company president who makes resounding speeches expressing his faith in the strength of the economy, then returns to his firm and orders a 10 per cent reduction in personnel until times get better may honestly believe that he expresses his company's policies in his speeches, but actions speak louder than words—and actions, not words, determine the personality of the corporation.

It is in meeting challenges that a crucial element of the company personality appears: its adaptability or capacity to make realistic choices regardless of its inclinations and wishes. A company with a rigid personality will adhere to its habitual ways of operating come hell or high water (and sometimes the water gets *too* high). A company with an adaptable personality will discard a tradition when it becomes untenable or when a more profitable policy is at hand.

Some of the best examples of this can be seen in connection with diversification and new-product development. The old established firms that cherished their reputation for reliability and banked everything on the perpetuation of the public's taste for craftsmanship

have unfortunately been driven to the brink of bankruptcy fairly often in the last decade. Their pacesetters' self-image of being guardians of quality was painfully won, and even more painfully relinquished. As far as fashions in pacesetters go, this seems to be the day of the light-footed, far-sighted genius who can smell a shift in consumer tastes before it happens and jump from the old bandwagon to a new one in plenty of time to make the most of both.

Company History

To trace the history of a company personality, one needs to be more concerned with ideas and people than with production or sales figures. How did the key people in the company react to challenges and dangers in the past? How have they adjusted to changing situations?

To begin with, we need to know about the sources of new (or potential) pacesetters, and of new ideas. Nepotism, which is not necessarily an evil but is usually viewed with a jaundiced eye by outsiders, often enters the picture. Since some famiiles are notoriously lacking in harmony while others manage to see eye-to-eye about nearly everything, no sweeping generalization can be made as to whether nepotism breeds ideas or leaves them to stagnate.

However, the men who are singled out for advancement by the powers-that-be will usually be in sympathy with prevailing ideas about the company's business. The nonconformist is often weeded out or squelched. Perhaps this is as it should be, and perhaps it isn't, but in any case it creates a danger that the key ideas by which a company is managed will become inbred, uncriticized, and obsolete.

Any source of pacesetters in the company personality has to be considered as part of the company's resources. There is often a tendency to seek new managerial talent among men who share a certain common background. For example, one large eastern firm regularly chose about 90 per cent of its management trainees from recently discharged infantrymen who had no previous job experience and were graduates of a particular denominational college. Until this was pointed out to them, the company's executives were unaware that nearly all of their prospective successors were running to a single type!

"Inbreeding," either through families or through similar back-

grounds, is not necessarily unwise, but it is valuable for management to develop some insights into the special advantages and limitations imposed by their "homogenized" background.

Finding Common Denominators

Out of all this data there will usually emerge a fairly consistent set of patterns that reveal the basic attitudes of the pacesetters toward the company's business. The areas of agreement among the pacesetters will set the norms of behavior and thinking to which other members of the company are expected to conform. In some companies, the emphasis will be on punctuality, "correctness," and restraint; in others, the keynotes will be informality and "togetherness;" and so on.

Areas of emphasis and de-emphasis will become apparent. In some companies, the production department is at the center of everything and other departments seem to exist largely to service and assist it. In others, the sales department dominates the scene and can just about dictate the kinds of actions the other departments can take. Even where balance exists, there will often be underlying strains pulling in one direction or another.

Some companies will be found to be at cross-purposes with themselves. (One is tempted to talk about a "split company personality.") Some symptoms of this are vacillation between opposed courses of action, too much "study" and analysis of proposed moves before approving or rejecting them, and repeated makeshift "solutions" that fail to strike at the heart of long-standing problems.

For example, the general manager of a division of a large corporation felt that he owed a debt of gratitude to the comptroller, without whose prudent advice the division might easily have foundered during the lean depression years. Nevertheless, as the character of the economy changed it became apparent that the comptroller was no longer equal to his job: he continued to act as if the company were in imminent danger of collapse. The general manager did everything he could to help the comptroller understand the point of view of nearly everyone else in the division. This included several fiascoes, such as unofficially replacing the comptroller by "kicking him upstairs"—an arrangement that didn't work because his replacements found themselves continually harassed by a prede-

cessor who wouldn't let go of the reins. At last the general manager reluctantly faced the fact that, not withstanding his gratitude, he no longer had confidence in the comptroller, and arranged to help him find a position in another company.

WHEN A PERSONALITY NEEDS CHANGE

Merely because a company has a personality of its own is, in itself, not necessarily an adequate reason to attempt to analyze it. The real essence of a company's human resources is as elusive and easy to misjudge as the real motives of an individual human being, and even when that essence is perceived, there is no guarantee that anything constructive will come of it.

But insight into the company personality can often be of far-reaching value. The two prerequisites for a useful analysis of this type are (1) dissatisfaction with the company's demonstrated ability to meet its problems, and (2) a plausible basis for suspecting that unexamined group attitudes, rather than individuals or policies, are at fault.

When things go wrong, there is an all-too-human tendency to "solve" the problems by causing a few heads to roll. Many a sound, valuable executive has been sacrificed this way to pay for mishaps that could not have been avoided under the conditions imposed on them by company-wide blind spots and miscalculations. This is a tragic waste. Finding scapegoats may ease a few consciences, but it isn't nearly as effective, in the long run, as finding causes.

The analysis of a company personality should never be undertaken with a commitment to alter or "improve" what is found. There are often practical reasons why changes, however desirable they might be in theory, are out of the question. More importantly, some companies *cannot* change because of the character of their pace-setters: to induce such a company to alter its basic thinking is merely to court unnecessary stress and eventual disaster.

The analysis should not assume, in other words, that the company personality is "sick," because a "cure" may be impossible and because such an assumption may only obscure hidden strengths. These strengths are as much a target of investigation as weaknesses.

There are five kinds of benefits to be derived from surveys of this kind.

1. The most obvious concerns executive selection and placement. Incompatibility between the individual executive and the company personality is at the bottom of more short-lived placements than many people realize.

2. Analysis of the company personality should precede the planning for a management development program. This will help to pinpoint the kinds of thinking and activities that need to be fostered. More importantly, it will help to throw light on the attitudes—and people—that might hamstring the program by opposing or undercutting its qualities.

3. The analysis can help spotlight obsolete or inefficient policies that are maintained because everyone assumes that they are immutable, or because people have lost sight of the fact that they *are* policies and regard them as inescapable conditions under which the business must operate.

4. Learning about the company personality can help to delineate the limit of the company's tolerance for new ideas or new faces. In a market-conscious era that seems to demand an unending process of revamping, many companies commit themselves to costly programs for which they have no real stomach when the full ramifications of the program become apparent.

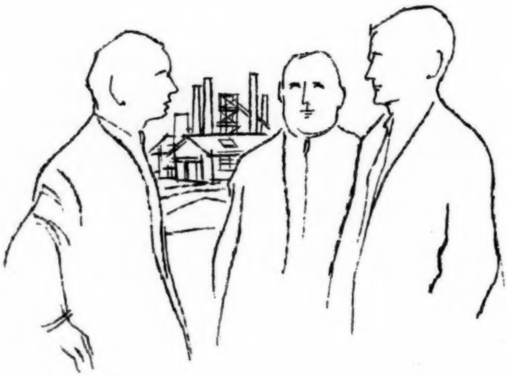
5. The analysis can help redirect the company toward areas where its own special balance of strengths and weaknesses can be applied to maximum advantage. Some companies try to "be all things to all men" and artificially equalize their emphases despite a natural inequality of talent and interest. For example, the naturally conservative company is probably making a mistake when it starts gambling on costly promotional schemes that may or may not pay off—unless, of course, it has succeeded in changing its basic personality beforehand.

WHAT CAN BE DONE?

It is always possible to change a company personality that seems to be out of step with the times, although it is not always feasible to attempt it. Sometimes the changes that will be necessary may prove to be more sweeping steps than the organization is willing to take, involving far-reaching changes and organizational disruptions that will leave the company in a weaker position than before.

The fastest way to change a company's personality is, of course, to replace its creators and proponents with key men of another type. This would involve supplanting the present pacesetters with new personnel who are capable of remolding the company's personality in their image. This has been done many times, with impressive success, but it is a drastic move that can also bring disaster to the organization and should be undertaken only on the most pressing necessity.

Change can also be brought about gradually by selection and training procedures and by improving internal communications. If the new men who are brought into the company as potential managers are carefully chosen for their compatibility with the personality towards which the company is moving, and if training and development courses stress the factors that will contribute to this personality, the company's personality can be changed by stages in the desired direction. The changes that are brought about in this manner may well prove less damaging to the morale and operating efficiency of the organization than a wholesale disruption and replacement of the company's key men, and, unless drastic action is necessary to save a foundering corporation, will probably prove to be the most effective way of changing an undesired company personality. ♦



Organizing for Overseas Operations

(*Continued from page* 13)

the needs of all three. This does not mean that once a pool is set up it should not be changed; it only suggests that it cannot be turned on and off as readily as a competitive purchase might be. A pool should be continually examined to make certain that the anticipated benefits continue to exist, and, if not, the content of the pooled work should be changed.

The concept of a pool is only workable after management has accepted the concepts with which we began: (1) decentralization of responsibility, and (2) decision-making authority placed as close to the point of action as the information needed and the level of competence can be made available.

The International Division in the Overseas Market

Another approach to defining responsibility clearly, in our hypothetical company, is to limit the responsibility of the three product divisions to the domestic market and set up an international division responsible for the overseas market. The international division could then either purchase for export or could manufacture overseas, or both, and it would be measured on its participation in the world market outside the United States.

These examples are, of course, oversimplified, but they do point out some of the principles involved. Economic and short-term emphasis factors may lead to combinations of these basic approaches. For example, one of the product divisions could have responsibility for the world market except Canada, South America, or some other area. Or, it may be desirable to centralize the work of studying country-by-country social, political, and economic environments for the purpose of determining over-all company strategy, and, following such a study, to determine the scope of each of the operations.

LICENSING AND LOCAL MANUFACTURE

If, as so often happens, borders are closed to imports, or there are exchange limitations, or cost of product delivered is not competitive, or other problems arise, it may become necessary or desirable either to license or to manufacture locally.

It is a well-established fact that, in any individual country, local manufacture will take over when sufficient demand has been built up through import to justify the investment in manufacturing facilities, provided that raw materials can be made available at a reasonable cost. Such an operation is frequently economically justified on a much smaller scale than the level that higher domestic labor rates establish as a minimum in our country.

In such a case, the organization structure should be re-examined. A responsibility to export a domestic-made product is incompatible with a responsibility to obtain maximum participation in a market with the same or a similar locally made product. If these responsibilities are structured into two organization components, neither can be properly measured for results. Also, there often may be confusion in the eyes of the customer.

How, then, can these conflicting interests be reconciled? One solution is to place the responsibility for participation in all markets in the export operation until better results can be obtained from local manufacture—or, better yet, until the volume is such that a local organization can be supported. At this point, the local organization can be given full responsibility for obtaining participation in the market in that country, as well as freedom of choice to make or buy. In product lines having many products or with large, complicated products, there will be many make-or-buy decisions, each of which can be supported by factual analysis from the over-all company point of view.

In such an arrangement, there is frequently a strong tendency to insert a filter, in the form of an international division headquarters, between the overseas operation and the product divisions. Such an organization should be examined frequently and critically to determine whether its contribution is worth the cost. The pooling principle discussed earlier may apply here and justify a pooled operation, especially where high-level specialized skills are required in small amounts in each of several organization components.

Here, again, the important point is to define the responsibilities with precision and in writing and then let each individual carry them out. The most successful overseas operation results when most decisions can be made locally, where the greatest knowledge of the situation is located and where the greatest flexibility of timing is

needed—always, of course, within a framework of policy that preserves the common interests.

MEASURING CONTRIBUTIONS TO PROFIT

Whatever form of organization structure is determined—and none will be as simple as our hypothetical tire, toothpaste, and tranquilizer company—the international operation should not be thought of as separate from the over-all company. There should be common objectives and the planned and measured use of common resources. Responsibility for the achievement of each objective can be clearly placed, but such responsibility includes the responsibility for having an awareness of the whole and for making decisions from the viewpoint of the company as a whole. The domestic operation and the international operation must not be conflicting, but supplementary to each other.

For management to be effective in an organization, results must be measurable. Since one of the important measures of the entire enterprise is profit, it is desirable and often convenient to measure the contribution to total profit made by individual organization components. This becomes difficult in organizations such as we have been discussing unless there is a clear-cut, arm's-length, buy-and-sell relationship. It becomes even more difficult when laws and customs that differ in each country must be factored into decisions.

As a generalization, profit, as a portion of total company profit, should be measured at one point only, except for memoranda measurements. For example, a product division that exports through an international division should measure the total profit on the manufacture and distribution of the product. They can then get a true evaluation of the overseas part of the enterprise as compared with the domestic operation. The international operation can then be measured on a memorandum basis to determine what value its operation adds, as compared with its cost of operation.

TAX ADVANTAGES

Tax advantages should be examined carefully. In going from an overseas sales organization to a sales and manufacturing operation, there is sometimes a tax saving to be gained by setting up two corporations and claiming exemptions for each. The disadvantages from

ineffective organization, however, might well outweigh the tax advantage.

A business enterprise should be complete in itself to be most effective. When sales and manufacturing are divided into two organizations as separate corporations, each as a sole source or outlet for the other, the result can be extremely ineffective. The manufacturing organization is never satisfied with the forecasts or the efforts of the selling organization and often tries to outguess them, which results in over- or under-inventory, poor timing, or inappropriate product features. The selling organization, on the other hand, is seldom satisfied with the quantity, quality, timing, and features of the product. This phase of organizing the process flow is an involved subject, but these rather oversimplified examples should serve to indicate the kind of situations that must be avoided or approached with caution.

CULTURAL AND ENVIRONMENTAL DIFFERENCES

A final important factor in organization is people—not so much people as individuals, but peoples as groups of individuals in particular cultures and environments. There are tremendous differences between the people of one country and those of another, just as there are between people in different sections of our own country.

There are, for example, local legal requirements and local customs that must be factored into organization planning. For example, in many countries it is customary to collect all bills in person, rather than by mail. This requires setting up an organization for such collection. In many countries, required reports and records must be kept in certain prescribed ways, and modern machine records, such as those we use in the United States, are often legally unacceptable. Such deviations from the typical domestic organization require no special consideration; they can be handled in a simple and straightforward way by organizing around the work to be performed.

There are, however, many important differences in people and customs from country to country. Religious beliefs, traditions, environment, a political atmosphere of freedom or oppression, value systems—all may have profound effects on people, and all may add to the differences between them. What has this to do with organizing? It has much to do with it.

We often are told that people in some of these countries have lived for so many generations in a master-serf relationship that they cannot be given responsibility without constant supervision. Don't you believe it. Experience indicates that responsibility can be delegated and will be assumed, even by personnel in so-called backward areas. A teaching period should, of course, be allowed for them to learn to accept responsibility, and allowance should be made for the effect of social pressures derived from the customs of the people.

Another basic difference between domestic and foreign operations, of course, is the language barrier. So many of the new ideas that are exchanged so freely in our highly industrialized society because we can print and duplicate them are available only in English. This imposes an added burden of translation or of teaching through the bilingual personnel of the company.

Class distinctions, language barriers, caste systems, differing religious beliefs, and matters of prestige and titles and educational background often get mixed up with organizing and position design in overseas operations. But responsibilities can be separated without overlaps when the positions are carefully designed and the design is implemented with a determination to make it factual.

APPLYING THE PRINCIPLES OVERSEAS

Much has been, and is being, accomplished toward improving understanding in these areas. Many United States companies have traditionally made important contributions over the years. The educators in other countries where industrialization is advancing have an opportunity to play an increasingly important role. Many countries have established productivity centers, staffed with capable people who are dedicated to improving the conditions in their countries and who are highly receptive to ideas we give them.

To get the greatest gain from what we have learned, it is first necessary to understand the basic principles of organization and how they apply in *our* culture. Then we must understand thoroughly the different environment and culture of another country and establish goals for organization and manpower development, with a plan and program to reach those goals. If this is done with understanding, the basic organizing principles can be applied as effectively in other countries as they have been in the United States. ♦

Book Notes

(Please order books directly from publishers)

GENERAL

SOME THINGS WORTH KNOWING: *A Generalist's Guide to Useful Knowledge*. By Stuart Chase. Harper & Brothers, New York, 1958. 278 pages. $3.95. An attempt to distill useful and usable knowledge from the vast ocean of facts in encyclopedias. Written in the author's usual burly manner, the book tours some of the major areas of knowledge from the universe to the atom and from the economy of ancient Sumeria to the modern corporation.

THE BIG COMPANY LOOK. By J. Harvey Howells. Doubleday & Company, Garden City, N.Y., 1958. 384 pages. $3.95. A novel about a young merchandising man with an obsession for getting ahead. The ways of big business and its devastating effects upon the men and women involved form the somewhat familiar theme.

SUCCESS AND FAILURE IN SMALL MANUFACTURING: *A Study of 20 Small Manufacturing Concerns*. By A. M. Woodruff and T. G. Alexander. University of Pittsburgh Press, 1958. 124 pages. $3.50. Prepared under a research grant from the Zurn Foundation, this report analyzes the underlying troubles of ten unsuccessful companies and the basic characteristics of ten successful ones. Included are sections on special management situations and management analysis.

DEVELOPING EXECUTIVE CAPACITY. By Edwin Laird Cady. Prentice-Hall, Inc., Englewood Cliffs, N.J., 1958. 204 pages. $4.95. This self-help guide to becoming a better executive focuses on the four basic elements of executive growth: evaluating one's present position, understanding the executive position, learning to think like an executive, and learning to harness one's mental forces.

COMPANY AND COMMUNITY: *Case Studies in Industry-City Relationships*. By Wayne Hodges. Harper & Brothers, New York, 1958. 360 pages. $4.50. Designed to help companies improve their ideas, principles, and techniques in dealing with the problems of community relations, this book discusses such topics as fund-raising, labor relations, taxation, zoning, and publicity.

MANAGEMENT CREEDS AND PHILOSOPHIES: *Top Management Guides in Our Changing Economy*. By Stewart Thompson. American Management Association, Inc., New York, 1958. 127 pages. AMA members, $2.00; nonmembers, $3.00. This AMA research study presents the findings of a survey that explored how company creeds have been formulated and used in 103 leading companies and the results the creeds have achieved. The basic purposes of a company creed are evaluated and its development is illustrated in case studies of the experience of five companies. Selected examples of 28 company creeds are appended.

MANAGEMENT'S STAKE IN RESEARCH. By Maurice Holland, *et al.* Harper & Brothers, New York, 1958. 143 pages. $3.50. An evaluation of research as a tool of management, addressed to executives, market analysts, research technicians, and teachers and students of business administration. Special attention is given to the problems of the small company and the role of basic research.

OPERATIONAL RESEARCH IN PRACTICE. Edited by Max Davies and Michel Verhulst. Pergamon Press, New York, 1958. 201 pages. $12.00. These papers and discussions from a conference held in Paris in 1957 designed to promote and guide the development of operational research in NATO countries are concerned with what operational research can do and how its various techniques have been applied.

SCIENTIFIC PROGRAMMING IN BUSINESS AND INDUSTRY. By Andrew Vazsonyi. John Wiley & Sons, Inc., New York, 1958. 474 pages. $13.50. Written for the practicing manager, this book explains the techniques of scientific programming in business rather than mathematical terms. The uses of linear programming in transportation allocation and of statistical methods in production and inventory control are described and illustrated by actual case histories.

BUSINESS ORGANIZATION AND MANAGEMENT: *Fourth Edition.* By Elmore Petersen and E. Grosvenor Plowman. Richard D. Irwin, Inc., Homewood, Ill., 1958. 678 pages. $7.00. This new edition of a well-known text represents a thoroughgoing revision of the contents of previous editions. Major portions of the book have been entirely rewritten and much new material on such subjects as the organizational and managerial effects of automation, research, and recent developments in human relations has been added.

READ FASTER—AND GET MORE FROM YOUR READING. By Nila Banton Smith. Prentice-Hall, Inc., Englewood Cliffs, N.J., 1958. 393 pages. $5.95. Here the author describes her own tested methods for improving reading skill, as used in New York University's Reading Institute. The book includes chapters on vocabulary lists, self-testing, timing and scoring devices, and comprehension questions and answers.

AUTOMATION: *Technology's New Face.* By Jack Rogers. Institute of Industrial Relations, University of California, Berkeley, 1958. 94 pages. 50 cents. A convenient and relatively brief discussion of the technological concepts involved in automation and its implications for management, labor, and the economy. Includes information on feedback, information handling, and computer applications.

MARKETING

YOUR PUBLIC RELATIONS ARE SHOWING. By John Newton Baker. Twayne Publishers, New York, 1958. 312 pages. $5.00. A discussion of the art of dealing effectively with people and the business of organizing the details of work so that an organization always has its best foot forward. Covers the uses of press, radio, TV, advertising, speeches, direct mail, and fund-raising campaigns. A list of 101 tested publications techniques is also given.

COLOR PLANNING FOR BUSINESS AND INDUSTRY. By Howard Ketcham. Harper & Brothers, New York, 1958. 274 pages. $5.95. Designed as a guide for all businesses and industries, this book shows how proper color and lighting plans can increase sales; improve morale, efficiency, and safety; build prestige; and attract greater attention to a company's products. The topics discussed include color in packaging, advertising, and TV; office planning; and camouflaging for defense. A list of color names and systems and a color quiz are appended.

MARKETING RESEARCH ORGANIZATION AND OPERATION. By Richard D. Crisp. American Management Association, Inc., New York, 1958. 70 pages. $2.25 (AMA members, $1.50). Based on a survey of marketing research organization and operations in 195 companies, this study includes information on reporting relationships, expenditures for marketing research, salaries of marketing research executives, and the use of consulting agencies. It also discusses the comparative popularity of specific marketing research tools. Some examples of position descriptions used by leading companies are given.

MANAGERIAL MARKETING: *Perspectives and Viewpoints*. By Eugene J. Kelley and William Lazer. Richard D. Irwin, Inc., Homewood, Ill., 1958. 508 pages. $7.20. Designed to supplement standard textbooks in advanced undergraduate and graduate marketing courses and in executive development programs, this book covers the three basic elements in the managerial approach to the study of marketing: problem-solving and decision making; the managerial focus; and the interdisciplinary approach.

MODERN SALESMANSHIP: *Principles and Problems*. By Edwin Charles Greif. Prentice-Hall, Inc., Englewood Cliffs, N.J., 1958. 550 pages. $9.00. A detailed guide to all aspects and phases of direct (nonretail) selling, this book features actual examples of salesmanship and offers practical suggestions, questions, and case problems designed to increase selling skills. Included are sections on the salesman in the American market; company, customer merchandise, and promotion; the techniques of selling; and sales management.

1958 ADVERTISING SOURCES COURSE NOTES. New York Chapter, Advertising Group, Special Libraries Association, 1958. $2.50. (Copies of these notes can be obtained from Mrs. Doris B. Katz, National Broadcasting Co., 30 Rockefeller Plaza, Rm. RKO 304, New York 20. Checks should be made payable to New York Chapter, Advertising Group, Special Libraries Association.) These notes represent a comprehensive recapitulation of up-to-date sources in research, advertising, and marketing. They are based on eight lectures given by the New York Advertising Group of the Special Libraries Association.

THIRTIETH ANNUAL BOSTON CONFERENCE ON DISTRIBUTION. The Retail Trade Board of the Greater Boston Chamber of Commerce, 1958. 106 pages. $5.00. (Copies can be obtained from the Boston Conference on Distribution, 80 Federal St., Boston 10, Mass.) Taking "Distribution and World Progress" for its theme, this internationally famous forum on problems of distribution features a number of notable speakers on subjects of direct importance to American business. Some of the topics discussed are the changing American consumer, the role of distribution in foreign economic policy, road blocks at the retail level, and world travel and its relation to trade.

CASES IN MARKETING STRATEGY. By Harper W. Boyd, Jr., *et al.* Richard D. Irwin, Inc., Homewood, Ill., 1958. 239 pages. $8.35. These case studies of representative companies in the manufacture of consumer and industrial goods serve to illustrate such topics as the nature and scope of marketing, the influence of the market upon marketing decisions, product and product line, channels of distribution, selling and advertising, pricing, and marketing programs. Also included is a section on marketing legislation.

FINANCE

TAX AVOIDANCE VS. TAX EVASION. By Sydney A. Gutkin and David Beck. The Ronald Press Company, New York, 1958. 220 pages. $10.00. Aiming at eliminating the confusion presently existing in the areas of tax avoidance and tax evasion, the authors examine the problem from its historical, practical, and ethical standpoints. Some 250 cases, grouped topically under 25 principal headings, are analyzed to illustrate representative categories of avoidance and evasion. The various techniques—successful and unsuccessful—that have been used by taxpayers are demonstrated and those likely to result in penalty or prosecution are fully discussed.

REPAIRS VS. CAPITAL EXPENDITURES. By James C. Wriggins and George Byron Gordon. The Ronald Press Company, New York, 1958. 144 pages. $10.00. Distinguishing—for tax purposes—between fully deductible repair expenses and depreciable capital expenditures, the authors discuss the areas of conflict in the light of the decisions of the courts. The cautions to be observed and the techniques that can be used to build a correct and acceptable record are also presented.

CONDITIONS FOR DIRECT TAXATION AND OTHER ESSAYS: *Economic Series No. 17*. By Motokazu Kimura. The Science Council of Japan, Ueno Park, Tokyo, Japan, 1958. 130 pages. Gratis. A collection of essays, originally published in various journals, discussing the relationship between taxes and their socio-economic background, with particular emphasis on present-day problems in Japan.

ASSIGNMENT OF INCOME. By Don J. Summa. The Ronald Press Company, New York, 1958. 131 pages. $10.00. Written for the benefit of taxpayers and their advisers, this book presents in summary form the principal issues that have arisen in connection with cases dealing with attempted assignments of income. These issues are examined and analyzed according to the kind of income under consideration. In a final chapter, the author suggests what factors should be considered in order to avoid having an attempted assignment fail under scrutiny by the Internal Revenue Service. Treatment by the courts and related Revenue rulings are cited. A substantial bibliography of articles is also included.

INTEGRATED AUDITING. By Sidney W. Peloubet and Herbert Heaton. The Ronald Press Company, New York, 1958. 272 pages. $7.00. A comprehensive treatment of auditing theory, designed to show what auditing is, what an auditor is trying to accomplish, and why and how he proceeds in a particular manner. The patterns of evidence, thinking, and verification that are

the basis of successful auditing and business control are clearly developed. In addition to describing the basic auditing procedures and the practical techniques involved in their application, the book offers problems and cases designed for staff training purposes.

ADVANCED ACCOUNTING PROBLEMS: ***Theory and Practice.*** By Irving J. Chaykin and Max Zimering. John Wiley & Sons, Inc., New York, 1958. 562 pages. $10.50. A textbook for candidates for the CPA examination. It covers every important aspect of advanced accounting, except taxes, and for each topic covered gives a concise background of its related theoretical fundamentals, followed by a series of graded illustrative problems and their solutions.

SALE-LEASEBACKS AND LEASING: ***In Real Estate and Equipment Transactions.*** By Harvey Greenfield and Frank K. Griesinger. McGraw-Hill Book Company, Inc., 1958. 107 pages. $12.50. This recent addition to the McGraw-Hill series of Consultant Reports on Current Business Problems discusses the characteristics of leasing, both of real estate and equipment, and its advantages and disadvantages. The authors also cover the use of long-term credit, tax savings, the use of the lease as an aid to marketing, and the substitution of leasing for bank financing. A bibliography is included.

Publications Received

(*Please order directly from publishers*)

GENERAL

EXECUTIVE TECHNIQUE: ***A Personal Guide for Plant Executives.*** Factory Management and Maintenance, 330 W. 42 St., New York 36, N.Y., 1958. 128 pages. 50 cents.

SPEAKING FOR RESULTS. By Ralph A. Micken. Houghton Mifflin Company, Boston, Mass., 1958. 209 pages. $2.75.

HUMAN RESOURCES FOR EGYPTIAN ENTERPRISE. By Frederick Harbison and Ibrahim Abdelkader Ibrahim. McGraw-Hill Book Company, Inc., 1958. 230 pages. $5.50. Handbook of the Atomic Energy Industry. Pitman Publishing Corp., 2 W. 45th St., New York 36, N.Y., 1958. 277 pages. $8.50.

MONEY, MEN AND MACHINES. ***Second Edition.*** By Waddill Catchings and Charles F. Roos. The Econometric Institute, Inc., 230 Park Ave., New York, 1958. 241 pages. $3.50.

NATIONALISATION IN BRITAIN: ***The End of a Dogma.*** By R. Kelf-Cohen. St. Martin's Press, Inc., New York, 1959. 310 pages. $5.50.

MANAGING THE SEARCH: ***A Symposium on the Effective Administration of Research Programs.*** By the Graduate School of Business and Public Administration, Cornell University, Ithaca, N.Y., 1958. 84 pages. $1.00.

THE RESULTS APPROACH TO ORGANIZATION. By Edward C. Schleh. Society for Advancement of Management, 74 Fifth Ave., New York 11, 1958. 21 pages. $1.50.

THE CHANGING FORM OF EUROPE'S ECONOMY: ***Indiana Business Information Bulletin No. 29.*** Edited by L. L. Waters. Bureau of Business Research, School of Business, Indiana University, Ind., 1958. 64 pages. $1.00.

EFFECTIVE UTILIZATION OF SCIENTISTS AND ENGINEERS: *Proceedings of the Delaware Valley Conference.* Public Relations Office, Drexel Institute of Technology, Philadelphia 4, Penna., 1958. 163 pages. $2.00.

SHOPLIFTING AND SHRINKAGE PROTECTION FOR STORES. By Leren E. Edwards. Charles C. Thomas, Springfield, Ill., 1958. 251 pages. $7.50.

PRIVATE SECRETARY'S ENCYCLOPEDIC DICTIONARY. Edited by Besse May Miller. Prentice-Hall, Inc., Englewood Cliffs, N.J., 1958. 402 pages. $5.65.

THE NETWORK OF INTRA-EUROPEAN TRADE: *Trade by Product in 1957.* Organisation For European Economic Co-Operation, 1346 Connecticut Ave., N.W., Washington 6, D.C. 1958. 217 pages. $2.50.

HEALTH PROBLEMS OF DIRECTORS. Institute of Directors, 10 Belgrave Square, London. S.W. 1, England, 1958. 35 pages. Gratis.

WHAT ABOUT MUTUAL FUNDS: *Revised Edition.* By John A. Straley. Harper & Brothers, New York, 1958. 152 pages. $2.95.

PRIVATE UNITED STATES VENTURE CAPITAL FOR INVESTMENT IN NEWLY DEVELOPING COUNTRIES: *International Comparative Studies; Investment Series* 2. International Industrial Development Center, Stanford Research Institute, Menlo Park, Calif., 1958. 29 pages. $3.00.

NOMA GLOSSARY OF AUTOMATION TERMS. National Office Management Association, Willow Grove, Penna., 1958. 35 pages. $2.00.

MARKETING

THE ART OF SELLING. By Nelg Revilo. Vantage Press, New York, 1958. 129 pages. $3.00.

FREEDOM OF ENTRY INTO INDUSTRY AND TRADE: *Project No. 259.* By Preben Munthe. Organisation for European Economic Co-Operation, 1346 Connecticut Ave., N.W., Washington 6, D.C., 1958. 76 pages. $1.25.

RESALE PRICE MAINTENANCE: *Project No. 238.* By Soren Gammelgaard. Organisation for European Economic Co-Operation, 1346 Connecticut Ave., N.W., Washington 6, D.C., 1958. 114 pages. $1.50.

THE DESIGN OF RESEARCH INVESTIGATIONS. American Marketing Association, 27 East Monroe St., Chicago, Ill., 1958. 16 pages. $1.00, members; $2.00, nonmembers.

MARKETING THEORY: *A Selected and Annotated Bibliography.* By Ralph B. Thompson. Bureau of Business Research, The University of Texas, Austin, Tex., 1958. 27 pages. 50 cents.

WHAT IT COSTS TO RUN AN AGENCY. By Carl O. Pearson. The Rough Notes Co., Inc., 1142 N. Meridian St., Indianapolis 6, Ind., 1958. 30 pages. $1.50.

SALESMANSHIP: *Today and Tomorrow.* By Anthony P. Heil. Greenwich Book Publishers, New York, 1958. 37 pages. $1.95.

PROCEEDINGS, FIFTH WASHINGTON STATE-INTERNATIONAL MARKETING CONFERENCE. Edited by Louis C. Wagner, University of Washington, Seattle, Wash., 1958. 48 pages. Gratis.

AMA CONFERENCE CALENDAR

MARCH - MAY, 1959

DATE	CONFERENCE	LOCATION
March 2-4	SPECIAL ELECTRONICS CONFERENCE	Statler Hilton Hotel, New York
March 23-25	SPECIAL MANUFACTURING CONFERENCE: Integrated Materials Management	Roosevelt Hotel, New York
April 13-15 April 13-17	28th Annual PACKAGING CONFERENCE and PACKAGING EXPOSITION	Palmer House and International Amphitheater, Chicago
May 6-8	SPRING INSURANCE CONFERENCE	Roosevelt Hotel, New York
May 11-13	SPECIAL PERSONNEL CONFERENCE on Labor Relations	LaSalle Hotel, Chicago
May 20-22	GENERAL MANAGEMENT CONFERENCE	Roosevelt Hotel, New York

To register or to obtain additional information on any of the conferences listed above, please contact Department M3, American Management Association, 1515 Broadway, New York 36, N.Y.